

**CITY OF PORTOLA
AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**

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CITY OF PORTOLA

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Council Members
of the City of Portola, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portola, California, (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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 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 entity'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 entity'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, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability/(asset) and related ratios, and budgetary comparison 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 City's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016 on our consideration of the City'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 City's internal control over financial reporting and compliance.



Roseville, California
December 30, 2016

**MANAGEMENT'S DISCUSSION
AND ANALYSIS (MD&A)**

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CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

This section of the City of Portola (City) annual financial report, presents a discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2016. It should be read in conjunction with the City's basic financial statements following this section.

I. FINANCIAL HIGHLIGHTS

A. Government-Wide Financial Analysis

The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$16,690,326:

- \$13,031,716 represents the City's investment in capital assets, less any related outstanding debt used to acquire those assets (net investment in capital assets).
- \$1,205,787 is available for the City's ongoing obligations related to programs with external restrictions (restricted net position).
- \$2,452,823 is available to fund City programs for citizens and debt obligations to creditors (unrestricted net position).

The City's total net position decreased by \$52,137 from the prior year:

- The \$259,809 decrease in net position net investment in capital assets represents infrastructure and other additions of \$594,723 less depreciation of \$925,727 and the retirement of related long-term debt of \$71,195.
- The \$179,646 increase in restricted net position represents the change in resources that are subject to external restrictions on their use, and is detailed in the government-wide financial analysis section on page 4.

B. Financial Analysis of the City's Funds

The City's governmental funds combined ending fund balance of \$3,451,839 was an decrease of \$510,198 from the prior year ending fund balance of \$3,962,037. Amounts available for spending include restricted, committed, assigned, and unassigned fund balances; these totaled \$2,320,425, or 67% of ending fund balance. Of this amount, \$367,298 is restricted by law or externally imposed requirements..

II. OVERVIEW OF THE FINANCIAL STATEMENTS

A. Government-Wide Financial Statements

The government-wide financial statements provide an overview of the City's finances in a manner similar to a private sector business that is using the accrual basis of accounting. They demonstrate accountability of the City of Portola by showing the extent to which it has met operating objectives efficiently and effectively, using all resources available, and whether it can continue to do so.

The ***statement of net position*** presents information on all of the City'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 of whether the financial position of the City is improving or deteriorating.

The ***statement of activities*** presents information on expenses and revenues to show how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported as soon as earned and expenses are reported as soon as incurred even though the related cash flows may not have taken place until future fiscal periods (e.g., earned but unused vacation leave).

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, planning and community development, public safety, streets and roads, public works and parks and recreation. The business type activities of the City include water, sewer, and solid waste services.

B. Fund Financial Statements

The fund financial statements provide evidence of accountability by demonstrating compliance with budgetary decisions made in a public forum. A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes stipulated by laws, regulations or policies. The funds of the City are divided into two categories: governmental and proprietary.

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 spending resources, as well as on balances of spending available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The City maintains 5 individual governmental funds. On the financial statements for governmental funds, information is presented separately for the General Fund. Data from non-major governmental funds are aggregated into a single column.

Proprietary funds consist of three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and solid waste services.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the information provided in the financial statements.

C. Required Supplementary Information

In addition to the basic financial statements, this report presents actuarial information related to the City's pension plans as well as budgetary comparisons for the General Fund as required supplementary information.

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

III. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City has presented its financial statements under the reporting model required by the Governmental and Accounting Standards Board Statement No. 34.

Condensed Statement of Net Assets
June 30, 2016 and 2015

	Governmental		Business-Type		Total		Total	
	Activities		Activities				Dollar	Percent
	2016	2015	2016	2015	2016	2015	Change	Change
Current and other assets	4,391,376	4,269,071	\$ 1,667,389	\$ 954,869	\$ 6,058,765	\$ 5,223,940	\$ 834,825	16%
Capital assets	8,266,988	8,414,385	5,744,100	5,927,707	14,011,088	14,342,092	(331,004)	-2%
Total Assets	<u>12,658,364</u>	<u>12,683,456</u>	<u>7,411,489</u>	<u>6,882,576</u>	<u>20,069,853</u>	<u>19,566,032</u>	<u>503,821</u>	<u>3%</u>
Deferred outflows of resources	32,108	20,712	33,744	21,603	65,852	42,315	23,537	100%
Current and other liabilities	651,504	67,037	146,153	145,925	797,657	212,962	584,695	275%
Long term liabilities	220,981	137,708	2,358,661	2,330,171	2,579,642	2,467,879	111,763	5%
Total Liabilities	<u>872,485</u>	<u>204,745</u>	<u>2,504,814</u>	<u>2,476,096</u>	<u>3,377,299</u>	<u>2,680,841</u>	<u>696,458</u>	<u>26%</u>
Deferred inflows of resources	33,941	90,573	94,470	94,470	128,411	185,043	(56,632)	100%
Invested in capital assets, net	8,266,988	8,414,385	4,764,728	4,877,140	13,031,716	13,291,525	(259,809)	-2%
Restricted	367,298	193,805	838,489	832,336	1,205,787	1,026,141	179,646	18%
Unrestricted	3,149,760	3,800,660	(696,937)	(1,375,863)	2,452,823	2,424,797	28,026	1%
Total Net Position	<u>\$ 11,784,046</u>	<u>\$ 12,408,850</u>	<u>\$ 4,906,280</u>	<u>\$ 4,333,613</u>	<u>\$ 16,690,326</u>	<u>\$ 16,742,463</u>	<u>\$ (52,137)</u>	<u>0%</u>

Net investment in capital assets reflects the City's investment in capital assets (i.e. its land, structures and improvements, infrastructure and equipment). The City uses the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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.

Restricted net position represent 7% of the total net position and are resources subject to external restrictions on how they may be used.

Unrestricted net position represents 15% of the total net position and may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF PORTOLA

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

The following highlights significant factors that affected the governmental and business-type activities and contributed to the change in net position:

Statement of Activities
For the Years Ended June 30, 2016 and 2015

	Governmental		Business-Type		Total		Total	
	Activities		Activities				Dollar	Percent
	2016	2015	2016	2015	2016	2015	Change	Change
Program revenues:								
Charges for services	\$ 127,777	\$ 103,365	\$ 1,850,223	\$ 1,777,742	\$ 1,978,000	\$ 1,881,107	\$ 96,893	5%
Operating grants & contributions	867,516	429,192	--	--	867,516	429,192	438,324	102%
General revenues:								
Property taxes	289,520	213,463	--	--	289,520	213,463	76,057	36%
Other taxes	326,759	290,016	--	--	326,759	290,016	36,743	13%
Other revenue	55,269	49,438	24,088	2,379	79,357	51,817	27,540	53%
Total Revenues	<u>1,666,841</u>	<u>1,085,474</u>	<u>1,874,311</u>	<u>1,780,121</u>	<u>3,541,152</u>	<u>2,865,595</u>	<u>675,557</u>	<u>24%</u>
Expenses:								
General government	565,471	283,477	--	--	565,471	283,477	281,994	99%
Planning and community development	328,770	167,555	--	--	328,770	167,555	161,215	96%
Public safety	417,261	320,580	--	--	417,261	320,580	96,681	30%
Streets and roads	753,221	729,615	--	--	753,221	729,615	23,606	3%
Public works	92,850	77,179	--	--	92,850	77,179	15,671	20%
Parks and recreation	134,072	226,738	--	--	134,072	226,738	(92,666)	-41%
Water Service	--	--	634,144	629,219	634,144	629,219	4,925	1%
Sewer Service	--	--	464,807	489,015	464,807	489,015	(24,208)	-5%
Solid Waste	--	--	202,693	663,239	202,693	663,239	(460,546)	-69%
Total Expenses	<u>2,291,645</u>	<u>1,805,144</u>	<u>1,301,644</u>	<u>1,781,473</u>	<u>3,593,289</u>	<u>3,586,617</u>	<u>6,672</u>	<u>0%</u>
Change in net position before transfers	(624,804)	(719,670)	572,667	(1,352)	(52,137)	(721,022)	668,885	-93%
Transfers	--	--	--	--	--	--	--	0%
Net Position - July 1	12,408,850	13,319,863	4,333,613	4,534,544	16,742,463	17,854,407	(1,111,944)	-6%
Prior period adjustment	--	(191,343)	--	(199,579)	--	(390,922)	390,922	-100%
Net Position - July 1 (restated)	<u>12,408,850</u>	<u>13,128,520</u>	<u>4,333,613</u>	<u>4,334,965</u>	<u>16,742,463</u>	<u>17,463,485</u>	<u>(721,022)</u>	<u>-4%</u>
Net Position - June 30	<u>\$ 11,784,046</u>	<u>\$ 12,408,850</u>	<u>\$ 4,906,280</u>	<u>\$ 4,333,613</u>	<u>\$ 16,690,326</u>	<u>\$ 16,742,463</u>	<u>\$ (52,137)</u>	<u>0%</u>

- Governmental activities reported a \$624,804 decrease in net position, and business-type activities reported an increase of \$572,667, for a net decrease of \$52,137.

IV. FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements.

Governmental funds. The general government functions are included in the General and Special Revenue Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and spendable resources. Such information is useful in assessing the City's financing requirements. In particular, total fund balance less the non-spendable portion is a useful measure of the City's resources available for spending at the end of the fiscal year.

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

At June 30, 2016, the City's governmental funds reported combined ending fund balances of \$3,451,839. Approximately 67% of this total amount, or \$2,320,425, of the total fund balance is available to meet the City's ongoing general obligation to citizens and creditors. The remainder of fund balance represents amounts that are not in spendable form and is comprised of long-term notes receivable and advances.

The General Fund is the main operating fund of the City. At June 30, 2016, total fund balance less the non-spendable portion of the General Fund was \$2,039,216 while total fund balance was \$3,170,630. As measures of the general fund's liquidity, it is useful to note that available fund balance represents 166% of total fund expenditures. It is the City's goal to maintain a minimum level of fund balance sufficient to preserve the City's credit rating in the event that the City needs financing and to maintain sufficient working capital. It is also the City's goal to maintain a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The City therefore adopted a policy that directs management to maintain a minimum level of unassigned fund balance in the City's General Fund as follows:

The City will strive to maintain an unassigned fund balance in the General Fund of 100% of budgeted general fund operating expenditures each fiscal year. In the event that the balance drops below the established minimum level, the City's governing body will develop a plan to replenish the fund balance.

The following table presents the revenues from various sources as well as increases or decreases from the prior year in the governmental funds.

**Revenues Classified by Source
Governmental Funds**

Revenue Sources	FY 2016		FY 2015		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Taxes	\$ 616,279	38%	\$ 503,479	39%	\$ 112,800	22%
Licenses and permits	79,147	5%	59,848	5%	19,299	32%
Fines & forfeitures	473	0%	1,048	0%	(575)	-55%
Use of money & property	18,932	1%	43,613	3%	(24,681)	-57%
Intergovernmental	816,549	51%	648,992	50%	167,557	26%
Charges for Services	48,157	3%	42,469	3%	5,688	13%
Other	36,337	2%	5,825	0%	30,512	524%
Total	<u>\$ 1,615,874</u>	<u>100%</u>	<u>\$ 1,305,274</u>	<u>100%</u>	<u>\$ 310,600</u>	<u>24%</u>

Significant changes for major revenue sources are explained below.

- Property taxes were up \$66,506 due to the release of stranded supplemental funds from the County of Plumas. There was also an increase in sales tax due to triple flip true up and accrual timing.
- Licenses and permits were up mainly due to a large building permit for a commercial structure.
- There was a decrease in the dollar amount from fines and forfeitures brought in by law enforcement activities mainly due to the change in the Community Services Officer program.
- The large decrease in use of money & property because a repayment of an abatement lien was in the prior year.

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Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

- The large increase in intergovernmental from 2015 was the Grant funded projects and the ongoing A-15 project through STIP.
- The increase in “other” is from a reimbursement from the County for the over collection of administrative fees over a number of years.

The following table presents expenditures by function compared to prior year’s amounts in the governmental funds.

**Expenditures by Function
Governmental Funds**

	FY 2016		FY 2015		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General government	\$ 534,214	25%	\$ 286,206	25%	\$ 248,008	87%
Planning and community development	326,361	15%	168,081	14%	158,280	94%
Public safety	364,426	17%	278,905	24%	85,521	31%
Streets and roads	691,598	33%	236,739	20%	454,859	192%
Public works	83,144	4%	73,554	6%	9,590	13%
Parks and recreation	126,329	6%	119,836	10%	6,493	5%
Total Expenditures	\$ 2,126,072	100%	\$ 1,163,321	100%	\$ 962,751	83%

Significant changes for major functions are explained below:

- The significant change between 2015 and 2016 in General Government expenditures is an increase in legal expense due to a judgement by the Court to repay Fish and Wildlife for costs associated with litigation. (See Note 13)
- Major grant expenditures are included in Planning and Community Development in 2016 including a public facilities CDBG grant. In addition the City had to use the Program Income funds from Fund 215 (CDBG).
- Public safety increased as the large costs were associated with a fire on Commercial Street.
- Streets and Roads increased due to more expenditures in this year for the A-15 STIP project.
- Public Works had Grant Expenditures for a project funded by UP Railroad
- Parks and Recreation had a slight increased due to pool repairs
- **Proprietary funds.** The City’s proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. These funds include the following enterprise funds: Water Service Fund, Sewer Service Fund and Solid Waste Fund.

V. GENERAL FUND BUDGETARY HIGHLIGHTS

The budget documents normally represent a financial plan for the City with four central goals in mind: (1) sustaining the level and quality of basic municipal services currently being provided our residents (2) maintaining the City’s infrastructure while implementing scheduled and unscheduled improvements determined at the time of the budget process; (3) providing for some opportunity for investment in additional tools,

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

equipment and programs that foster improvement in the overall aesthetics of the City as well as investment in social activities; and (4) developing plans for improved municipal services with a vision that will lead our community toward growth and tourism. This year's budget, while keeping all four goals in mind, addressed mainly goals number (1) sustaining the level and quality of services currently being provided to our residents and (2) maintaining the City's infrastructure. In addition to the past goals there is a renewed emphasis in economic development.

Differences between the original budget and the final amended budget are mainly due to the revenue and expenditures from Grant funds during the fiscal year and from Capital projects that are "reimbursed" and in many cases are not reflected in the original budget figures.

For the fiscal year 2015/2016 General Fund revenues were more than budget by \$70,090 and General Fund expenditures were \$222,671 more than budgeted. The City budgeted \$98,646 for the use of fund balance and used \$366,716. The large change in expenditure and use of fund balance was due to the posting of the court order for fees and costs associated with the Lake Davis lawsuit.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The change in capital assets for the Governmental Activities totaled \$147,397, net of depreciation for an ending balance of \$8,266,988.

Business-type capital assets for the fiscal year ending June 30, 2016, were \$5,744,100, net of depreciation. This is a decrease in Capital Assets of \$183,607. More detailed information about the City's capital assets is presented in Note 5 of the basic financial statements.

B. Long-Term Debt

At June 30, 2016, the City had long-term debt outstanding of \$979,372. This is a decrease over June 30, 2015 of \$71,195. The entire long-term debt was attributable to Business-type activities. There is no long-term debt in the Governmental Activities.

More detailed information about the City's long-term liabilities is presented in Note 6 of the basic financial statements.

VII. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Management presented a budget document that attempted to address the current National, State and local economic conditions and to serve as the City's **policy document**, as an **operations guide**, as a **financial plan** and as a **communication document** to guide the City staff and Portola residents on how the City of Portola conducts its financial business. The challenges of the current economic situation, the need to comply with State regulations and the desire to be conservative with the fiscal position of the City are reflected.

The budget process began as usual in February with City staff preparing draft level of services budgets for each area of the City. In March, City staff, the general public and City Council participated in a FY 2016-2017 pre-budget preparation Goal Setting Workshop. The budget process continued through March, April and May with revisions to the level of services budgets, additions of "add ons" and discussion of what would be needed to provide a balanced budget. Budgets include funding for a full-time City Manager and an emphasis on economic development. The 2016-2017 budget did not make changes to the employee benefits but did include step increases and a 1.2% Cost of living raise. The budgets included the urgent need for some equipment for Public Works as well as additional funding for street repairs. In order for the City Council to be able to make informed priority decisions a report on the Fund Balances-Reserves for each of the City's budgeted funds was evaluated and prepared for City Council assessment. The critical need to maintain reserves is always in the forefront of

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

finance discussions. The City has been able to fund major projects in advance of reimbursements because of the reserves that it currently maintains.

The Budget utilizes a projected \$ 214,256.44 of the General Fund's fund balance to eliminate a projected shortfall of revenues over expenditures in the General Fund. The 2016-2017 General Fund original budgeted expenditures are \$1,082,131 compared to \$961,177 for 2014-2015. The use of fund balance at that rate is a concern and particularly in light of the amount currently due to the Department of Fish and Wildlife for the litigation costs that the City has been ordered to pay. As always close attention needs to be paid to budget amendments and the use of additional fund balance.

Despite revenue reductions and staffing shortages the General Fund continues to support the services necessary for the residents of Portola, including fire, parks, planning, building, animal control, and law enforcement through a Sheriff's contract for services and the addition to the Sheriff's contract of a Community Services Officer performing code enforcement, parking enforcements and service oriented duties. The City also continues to perform all its duties in the Streets, Water, Sewer and Solid Waste.

With regard to the City Enterprise Funds the effects and impacts of changing state and federal government regulation is a constant challenge. The Water fund had a deficit cash balance (with the exception of monies that are restricted for specific purposes) for quite some time but is has climbed out of the deficit. A rate increase of the amount that was allowable during the Prop 218 process 5 years ago was adopted and then rolled back. The challenge the Enterprise funds face is the aging infrastructure in the City. With no reserves for major repairs it may take some time for rates to cover the expenditures. The Solid Waste Fund had a positive cash balance but that amount is used each year to repay money borrowed from the General Fund from years past when rates were not sufficient to cover expenses. In the 2015-2016 fiscal year there was an increase in the amount that Solid Waste owes the General Fund by the difference between the money set aside for landfill closure and the final cost of the closure. It has been an important goal of the City to close the landfill with the long range potential to decrease fees. The landfill closure fee that is currently being collected goes entirely to repay the General Fund for the Closure loan. It is anticipated that the General Fund will be fully repaid in approximately 4 years. Enterprise Funds are "business-type" activities whose expenses need to be covered by the rate payers. The City Council will continue to review the need for any future rate increases each year during the budget process.

Staff keeps a watchful eye on State and Federal issues as well as on the financial health of the City and continually reviews these issues and the possibility of budget adjustments with the City Council.

VIII. REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the financial activity and condition of the City of Portola to all having such an interest in the City of Portola. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Portola Finance Department, 35 Third Avenue, P.O. Box 1225, Portola, California, 96122.

**BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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CITY OF PORTOLA

Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and investments	\$ 2,491,235	\$ 1,179,794	\$ 3,671,029
Restricted Assets:			
Restricted cash	--	838,489	838,489
Imprest cash	335	--	335
Accounts receivable	9,062	272,622	281,684
Interest receivable	3,828	2,346	6,174
Due from other governments	676,206	--	676,206
Loans and notes receivable, net	584,848	--	584,848
Internal balances	625,862	(625,862)	--
Capital Assets:			
Nondepreciable	1,416,940	241,211	1,658,151
Depreciable, net	6,850,048	5,502,889	12,352,937
Total Assets	<u>12,658,364</u>	<u>7,411,489</u>	<u>20,069,853</u>
Deferred outflows of resources			
Deferred pensions	<u>32,108</u>	<u>33,744</u>	<u>65,852</u>
Liabilities			
Accounts payable	582,398	15,063	597,461
Accrued salaries and benefits payable	38,251	18,055	56,306
Deposits	12,431	17,173	29,604
Unearned revenue	--	5,000	5,000
Accrued interest	--	4,364	4,364
Long-Term Liabilities:			
Portion due or payable within one year:			
Compensated absences	18,424	12,812	31,236
Notes payable	--	73,686	73,686
Portion due or payable after one year:			
Compensated absences	28,514	19,832	48,346
Notes payable	--	905,686	905,686
Liability for landfill postclosure	--	1,230,693	1,230,693
Net pension liability	192,467	202,450	394,917
Total Liabilities	<u>872,485</u>	<u>2,504,814</u>	<u>3,377,299</u>
Deferred inflows of resources			
Deferred pensions	<u>33,941</u>	<u>34,139</u>	<u>68,080</u>
Net Position			
Net investment in capital assets	8,266,988	4,764,728	13,031,716
Restricted:			
Planning and community development	288,516	--	288,516
General government	78,782	--	78,782
Capital improvements	--	748,252	748,252
Debt service	--	90,237	90,237
Unrestricted	3,149,760	(696,937)	2,452,823
Total Net Position	<u>\$ 11,784,046</u>	<u>\$ 4,906,280</u>	<u>\$ 16,690,326</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTOLA

Statement of Activities
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Fees, Fines and Charges for Services	Capital Grants and Contributions
Primary Government:			
Governmental Activities:			
General government	\$ 565,471	\$ 39,193	\$ 142,250
Planning and community development	328,770	645	26,504
Public safety	417,261	64,782	139,245
Streets and roads	753,221	--	559,517
Public works	92,850	--	--
Parks and recreation	134,072	23,157	--
Total Governmental Activities	<u>2,291,645</u>	<u>127,777</u>	<u>867,516</u>
Business-Type Activities:			
Water Service	634,144	866,832	--
Sewer Service	464,807	649,724	--
Solid Waste	202,693	333,667	--
Total Business-Type Activities:	<u>1,301,644</u>	<u>1,850,223</u>	<u>--</u>
 Total City of Portola	 <u>\$ 3,593,289</u>	 <u>\$ 1,978,000</u>	 <u>\$ 867,516</u>

General Revenues:

Taxes:

 Property taxes

 Sales and use taxes

 Other

Unrestricted interest and investment earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - July 1

Net Position - June 30

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (384,028)	\$ --	\$ (384,028)
(301,621)	--	(301,621)
(213,234)	--	(213,234)
(193,704)	--	(193,704)
(92,850)	--	(92,850)
(110,915)	--	(110,915)
<u>(1,296,352)</u>	<u>--</u>	<u>(1,296,352)</u>
--	232,688	232,688
--	184,917	184,917
--	130,974	130,974
<u>--</u>	<u>548,579</u>	<u>548,579</u>
<u>(1,296,352)</u>	<u>548,579</u>	<u>(747,773)</u>
289,520	--	289,520
271,489	--	271,489
55,270	--	55,270
18,932	3,670	22,602
36,337	20,418	56,755
<u>671,548</u>	<u>24,088</u>	<u>695,636</u>
(624,804)	572,667	(52,137)
<u>12,408,850</u>	<u>4,333,613</u>	<u>16,742,463</u>
<u>\$ 11,784,046</u>	<u>\$ 4,906,280</u>	<u>\$ 16,690,326</u>

The accompanying notes are an integral part of these financial statements.

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**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

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CITY OF PORTOLA

Balance Sheet
Governmental Funds
June 30, 2016

	General	State Transportation Improvement Plan	Other Governmental Funds	Total
Assets				
Cash and investments	\$ 2,264,683	\$ --	\$ 226,552	\$ 2,491,235
Imprest cash	335	--	--	335
Notes receivable	505,552	--	79,296	584,848
Accounts receivable	9,062	--	--	9,062
Interest receivable	3,584	--	244	3,828
Due from other funds	179,946	--	--	179,946
Advances to other funds	625,862	--	--	625,862
Due from other governmental agencies	217,817	458,389	--	676,206
Total Assets	\$ 3,806,841	\$ 458,389	\$ 306,092	\$ 4,571,322
Liabilities				
Accounts payable	\$ 300,740	\$ 273,602	\$ 8,056	\$ 582,398
Accrued salaries and benefits payable	16,583	12,148	9,520	38,251
Deposits from others	12,431	--	--	12,431
Due to other funds	--	179,946	--	179,946
Total Liabilities	329,754	465,696	17,576	813,026
Deferred Inflows of Resources				
Unavailable revenue	306,457	--	--	306,457
Total Deferred Inflows of Resources	306,457	--	--	306,457
Fund Balance				
Nonspendable	1,131,414	--	--	1,131,414
Restricted	78,782	--	288,516	367,298
Committed	214,256	--	--	214,256
Unassigned	1,746,178	(7,307)	--	1,738,871
Total Fund Balance	3,170,630	(7,307)	288,516	3,451,839
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 3,806,841	\$ 458,389	\$ 306,092	\$ 4,571,322

The accompanying notes are an integral part of these financial statements.

CITY OF PORTOLA

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activities
June 30, 2016

Fund Balance - total governmental funds (from previous page)	\$ 3,451,839
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	8,266,988
Deferred outflows of resources as reported in the Statement of Net Position	32,108
Deferred inflows of resources as reported in the Statement of Net Position	(33,941)
Unavailable revenues and long-term assets represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds:	
Unavailable revenues	306,457
Compensated absences	(46,938)
Net pension liability	<u>(192,467)</u>
Net position of governmental activities	<u>\$ 11,784,046</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTOLA

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	State Transportation Improvement Plan	Other Governmental Funds	Total
Revenues				
Taxes	\$ 616,279	\$ --	\$ --	\$ 616,279
Licenses and permits	79,147	--	--	79,147
Fines, forfeitures and penalties	473	--	--	473
Use of money and property	17,643	--	1,289	18,932
Intergovernmental	257,032	458,389	101,128	816,549
Charges for services	48,157	--	--	48,157
Other revenues	35,237	1,000	100	36,337
Total Revenues	<u>1,053,968</u>	<u>459,389</u>	<u>102,517</u>	<u>1,615,874</u>
Expenditures				
Current:				
General government	534,214	--	--	534,214
Planning and community development	143,617	--	182,744	326,361
Public safety	338,375	--	26,051	364,426
Streets and roads	--	421,516	270,082	691,598
Public works	83,144	--	--	83,144
Parks and recreation	126,329	--	--	126,329
Total Expenditures	<u>1,225,679</u>	<u>421,516</u>	<u>478,877</u>	<u>2,126,072</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(171,711)</u>	<u>37,873</u>	<u>(376,360)</u>	<u>(510,198)</u>
Other Financing Sources (Uses)				
Transfers in	--	--	195,005	195,005
Transfers out	(195,005)	--	--	(195,005)
Total Other Financing Sources (Uses)	<u>(195,005)</u>	<u>--</u>	<u>195,005</u>	<u>-</u>
Net Change in Fund Balances	(366,716)	37,873	(181,355)	(510,198)
Fund Balances, Beginning of Year	<u>3,537,346</u>	<u>(45,180)</u>	<u>469,871</u>	<u>3,962,037</u>
Fund Balances, End of Year	<u>\$ 3,170,630</u>	<u>\$ (7,307)</u>	<u>\$ 288,516</u>	<u>\$ 3,451,839</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTOLA

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2016

Net change to fund balance - total governmental funds		\$ (510,198)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 547,842	
Less: current year depreciation	<u>(695,239)</u>	
		(147,397)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		50,967
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Change in compensated absences		(10,080)
Change in accrued net pension liability		<u>(8,096)</u>
Change in net position of governmental activities		<u><u>\$ (624,804)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTOLA

Statement of Fund Net Position
Proprietary Funds
June 30, 2016

	Business-Type Activities - Enterprise Funds			
	Water Service	Sewer Service	Solid Waste	Total
Assets				
Current Assets:				
Cash and investments	\$ 619,931	\$ 554,863	\$ 5,000	\$1,179,794
Interest receivable	1,176	1,170	--	2,346
Account receivable	137,251	99,282	36,089	272,622
Restricted Assets:				
Restricted cash	384,913	453,576	--	838,489
Restricted investments	--	--	2	2
Total Current Assets	1,143,271	1,108,891	41,091	2,293,253
Noncurrent Assets:				
Capital Assets:				
Non depreciable	178,367	31,422	31,422	241,211
Depreciable, net	2,965,030	2,512,490	25,369	5,502,889
Total Noncurrent Assets	3,143,397	2,543,912	56,791	5,744,100
Total Assets	4,286,668	3,652,803	97,882	8,037,353
Deferred Outflows - Pension	16,197	15,290	2,257	33,744
Liabilities				
Current Liabilities:				
Accounts payable	6,448	5,219	3,398	15,065
Accrued salaries and benefits payable	7,605	6,495	3,955	18,055
Deposits	17,173	--	--	17,173
Unearned revenue	--	--	5,000	5,000
Accrued interest	3,860	504	--	4,364
Liability for compensated absences	6,541	5,466	805	12,812
Notes payable - current portion	46,000	27,686	--	73,686
Total Current Liabilities	87,627	45,370	13,158	146,155
Noncurrent Liabilities				
Liability for compensated absences	10,124	8,461	1,247	19,832
Advances from other funds	--	--	625,862	625,862
Landfill closure and postclosure	--	--	1,230,693	1,230,693
Notes payable	877,500	28,186	--	905,686
Net pension liability	97,176	91,735	13,539	202,450
Total Noncurrent Liabilities	984,800	128,382	1,871,341	2,984,523
Total Liabilities	1,072,427	173,752	1,884,499	3,130,678
Deferred Inflows - Pension	16,385	15,471	2,283	34,139
Net Position				
Net investment in capital assets	2,219,897	2,488,040	56,791	4,764,728
Restricted:				
Debt service	90,237	--	--	90,237
Facility fees	294,676	257,785	--	552,461
Capital projects	--	195,791	--	195,791
Unrestricted	609,243	537,254	(1,843,434)	(696,937)
Total Net Position	\$ 3,214,053	\$ 3,478,870	\$(1,786,643)	\$4,906,280

The accompanying notes are an integral part of these financial statements.

CITY OF PORTOLA

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2016

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Operating Revenues				
Fines	\$ 26,057	\$ 18,512	\$ 5,899	\$ 50,468
Charges for services	840,775	631,212	327,768	1,799,755
Total Operating Revenues	<u>866,832</u>	<u>649,724</u>	<u>333,667</u>	<u>1,850,223</u>
Operating Expenses				
Salaries and wages	232,971	194,056	28,571	455,598
Services and supplies	227,940	167,719	75,499	471,158
Landfill closure costs	--	--	94,430	94,430
Depreciation	125,265	101,030	4,193	230,488
Total Operating Expenses	<u>586,176</u>	<u>462,805</u>	<u>202,693</u>	<u>1,251,674</u>
Operating Income (Loss)	<u>280,656</u>	<u>186,919</u>	<u>130,974</u>	<u>598,549</u>
Non-Operating Revenue (Expenses)				
Interest income (loss)	3,251	3,486	(3,067)	3,670
Miscellaneous revenue	2,709	12,709	5,000	20,418
Debt service interest and fiscal charges	(47,968)	(2,002)	--	(49,970)
Total Non-Operating Revenue (Expenses)	<u>(42,008)</u>	<u>14,193</u>	<u>1,933</u>	<u>(25,882)</u>
Changes in Net Position	238,648	201,112	132,907	572,667
Net Position, Beginning of Year	<u>2,975,405</u>	<u>3,277,758</u>	<u>(1,919,550)</u>	<u>4,333,613</u>
Net Position, End of Year	<u>\$ 3,214,053</u>	<u>\$ 3,478,870</u>	<u>\$ (1,786,643)</u>	<u>\$ 4,906,280</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORTOLA

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid</u>	<u>Total</u>
	<u>Service</u>	<u>Service</u>	<u>Waste</u>	
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 828,010	\$ 634,732	\$ 335,617	\$ 1,798,359
Cash paid to suppliers for goods and services	(228,571)	(172,662)	(153,188)	(554,421)
Cash paid to employees for services	(224,953)	(190,009)	(24,957)	(439,919)
 Net Cash Provided (Used) by Operating Activities	 <u>374,486</u>	 <u>272,061</u>	 <u>157,472</u>	 <u>804,019</u>
Cash Flows From Noncapital Financing Activities:				
Cash repayments from (to) other funds	165,425	--	(159,403)	6,022
Miscellaneous income	2,709	12,709	--	15,418
Cash received from grants	--	--	5,000	5,000
 Net Cash Provided (Used) by Noncapital Financing Activities	 <u>168,134</u>	 <u>12,709</u>	 <u>(154,403)</u>	 <u>26,440</u>
Cash Flows From Capital and Related Financing Activities:				
Principal repayments on long-term debt	(44,000)	(27,195)	--	(71,195)
Interest repayments related to capital purposes	(47,875)	(1,498)	--	(49,373)
Payments related to the acquisition of capital assets	(14,997)	(31,884)	--	(46,881)
 Net Cash Provided (Used) by Capital and Related Financing Activities	 <u>(106,872)</u>	 <u>(60,577)</u>	 <u>--</u>	 <u>(167,449)</u>
Cash Flows From Investing Activities:				
Interest received or paid	2,407	2,773	(3,067)	2,113
Net Cash Provided by Investing Activities	<u>2,407</u>	<u>2,773</u>	<u>(3,067)</u>	<u>2,113</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 438,155	 226,966	 2	 665,123
 Cash and Cash Equivalents, Beginning of Year	 <u>566,689</u>	 <u>781,473</u>	 <u>5,000</u>	 <u>1,353,162</u>
 Cash and Cash Equivalents, End of Year	 <u><u>\$ 1,004,844</u></u>	 <u><u>\$ 1,008,439</u></u>	 <u><u>\$ 5,002</u></u>	 <u><u>\$ 2,018,285</u></u>
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:				
Cash and cash equivalents in current assets	\$ 619,931	\$ 554,863	\$ 5,000	\$ 1,179,794
Cash and cash equivalents in restricted assets	384,913	453,576	2	838,491
 Total Cash and Cash Equivalents	 <u><u>\$ 1,004,844</u></u>	 <u><u>\$ 1,008,439</u></u>	 <u><u>\$ 5,002</u></u>	 <u><u>\$ 2,018,285</u></u>

The accompanying notes are an integral part of these financial statements.

continued

CITY OF PORTOLA

Statement of Cash Flows (continued)
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2016

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid</u>	
	<u>Service</u>	<u>Service</u>	<u>Waste</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 280,656	\$ 186,919	\$ 130,974	\$ 598,549
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	125,265	101,030	4,193	230,488
Changes in assets and liabilities:				
(Increase) decrease in:				
Utilities receivable	(38,822)	--	--	(38,822)
Accounts receivable	--	(14,992)	1,950	(13,042)
Customer deposits	1,970	--	--	1,970
Increase (decrease) in:				
Accounts payable	(631)	(4,943)	(2,877)	(8,451)
Accrued expenses	777	280	3,081	4,138
Liability for compensated absences	1,130	(142)	(45)	943
Closure/postclosure liability	--	--	19,619	19,619
Net pension liability	4,141	3,909	577	8,627
	<u>4,141</u>	<u>3,909</u>	<u>577</u>	<u>8,627</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 374,486</u>	<u>\$ 272,061</u>	<u>\$ 157,472</u>	<u>\$ 804,019</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a Summary of Significant Accounting Policies for the City, and other necessary disclosures of pertinent matter relating to the financial position of the City. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

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

The City of Portola is governed by an appointed City Manager and elected five-member Council, from which a mayor is elected annually.

A. Description of Reporting Entity

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Reporting for component units on the City's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Blended component units are an extension of the City and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City.

The City had no blended or discretely presented component units as of June 30, 2016.

B. Basis of Financial Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the City and its components. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are primarily supported by fees charged to external parties.

The statement of activities presents a comparison between direct and indirect expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or a function and; therefore, are clearly identifiable to a particular function. Indirect expenses are those that are allocated to a program or a function from the City's centralized general service function based on the cost allocation principles established by the Federal Office of Management and Budget (OMB). Program revenues include 1) charges paid by the recipients of goods or services offered by the programs, 2) fines and penalties ordered by the courts, 3) licenses and permits charged by the programs, and 4) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net positions are available, restricted resources are used only after the unrestricted resources are depleted.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

B. **Basis of Financial Presentation** (continued)

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The City reports all enterprise funds as major funds. All remaining governmental funds are separately aggregated and reported as nonmajor funds.

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

The City reports the following major governmental funds:

- The *General Fund* is the primary operating fund of the City. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.
- The *State Transportation Improvement Plan (STIP) Fund* is used to account for projects that are funded using State Transportation Improvement Program monies.

The City reports all of its enterprise funds as major funds:

- The *Water Service Fund* is used to account for water services provided to the residents of the City and for a small number of residents directly outside the City.
- The *Sewer Service Fund* is used to account for sewer services.
- The *Solid Waste Fund* is used to account for the franchised curbside refuse and recycling collection provided to residences and businesses within the City and for the landfill postclosure maintenance costs.

C. **Basis of Accounting**

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) values without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements, and donation. On the accrual basis, property tax revenues are recognized in the fiscal year for which the taxes are levied. Sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, expenditures are recorded when the related liability is incurred except the unmatured interest on long-term debt, and expenses related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources. Revenues are recorded when they are both measurable and available to finance expenditures during the fiscal period.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

C. **Basis of Accounting** (continued)

Property and sales taxes, interest, state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Revenues earned but not received within sixty days after the end of the accounting period, on the other hand, are recorded as receivables and deferred inflows, in accordance with GASB 34.

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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

D. **Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the general purpose financial statements and the reported amount of revenue and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

E. **Interfund Transactions and Balances**

Interfund transactions are either reflected as loans, services provided, reimbursements or transfers. Loans are reported as receivable and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, are reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

F. **Capital Assets**

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are value at their estimated fair value on the date contributed. Capital assets include public domain (infrastructure) consisting of certain improvements including roads, bridges and water/sewer systems. The City is not required to retroactively report infrastructure and therefore has elected not to do so. The City defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets (continued)

The estimated useful lives are as follows:

Buildings	50 years
Infrastructure	15 to 30 years
Building improvements	10 to 30 years
Equipment	3 to 20 years

G. Property Tax

Plumas County assesses properties, bills, collects, and distributes property taxes to the City. For this service, the County charges the City an administration fee.

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1, and are payable in two installments on December 10 and April 10. The County bills and collects property taxes and remits them to the City in installments during the year.

H. Cash and Investments

For purposes of the Statement of Cash Flows – Proprietary Funds, the City considers all short-term highly liquid investments, including restricted cash and investments, to be cash and cash equivalents. Amounts held in the City’s investment pool are available on demand; thus, they are considered highly liquid and cash equivalents for purposes of the Statement of Cash Flows – Proprietary Funds.

I. Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the City’s own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the City’s own data.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

J. Receivables

Receivables consist of property taxes, sales taxes and grants from other governmental agencies. As of June 30, 2016 \$9,801 has been provided as an allowance for doubtful accounts because in the opinion of management the amount is not considered collectible.

K. Compensated Absences

The following is the City's policy on compensated absences upon discontinuation of services:

<u>Employee Status</u>	<u>% of Sick Hours Received</u>	<u>% of Vacation Hours Received</u>
Part-time	25	50
Full-time	25	100

The annual leave includes vacation and sick leave. City employees have vested interests in the amount of annual leave accrued and are paid on termination.

The city accrues accumulated unpaid compensated absences when earned (or estimated to be earned) by the employee. The non-current (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentation.

In accordance with the provisions of the GASB No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulated rights to receive sick pay benefits.

L. Pensions

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 City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items which qualify for reporting in this category. See pension disclosure Footnote 9. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has two items which qualify for reporting in this category. See pension disclosure Footnote 9.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

N. New Accounting Pronouncements

GASB recently released several new accounting and financial reporting standards. The following GASB Statements have been implemented in the current financials.

Government Accounting Standards Board Statement No. 72

GASB Statement No. 72, *Fair Value Measurement and Application*, is effective for periods beginning after June 15, 2015. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

Government Accounting Standards Board Statement No. 73

GASB Statement No. 73, *Accounting for the Financial Reporting for Pension and Related Assets That are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, is effective for periods beginning after June 15, 2015 except those provisions that address employers and government nonemployer contributing entities for pensions that are not within the scope of GASB 68, which are effective for fiscal years beginning after June 15, 2016. The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees, both active employees and inactive employees, are provided with pensions that are not within the scope of Statement No. 68, *Accounting and financial Reporting for Pensions*, as amended. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. An additional objective of this Statement is to improve the information provided in government financial reports about financial support provided by certain nonemployer entities for pensions that are provided to the employees of other entities and that are not within the scope of Statement 68.

NOTE 2: **NET POSITION/FUND BALANCE**

Net Position

The government-wide activities financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the City, not restricted for any project or other purpose.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 2: **NET POSITION/FUND BALANCE** (CONTINUED)

Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the highest level of decision-making authority and that remain binding unless removed in the same manner.

The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance – amounts that are constrained by the *intent* to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the special revenue funds.

Unassigned fund balance – the residual classification for the General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

NOTE 3: **CASH AND INVESTMENTS**

At June 30, 2016, total City cash and investments at fair value were as follows:

Petty cash	\$	335
Cash in bank		455,249
LAIF		4,054,267
Money market funds		<u>2</u>
	\$	<u>4,509,853</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Total cash and investments at June 30, 2016 were presented on the City's financial statements as follows:

Cash and investments in pool	\$ 3,671,029
Imprest cash	335
Restricted Assets:	
Cash	838,489
	\$ 4,509,853

Restricted cash and investments in the enterprise fund are comprised of funds held for debt service, facility fees, wastewater treatment capital improvements, and payment of the landfill postclosure costs.

Investments

At June 30, 2016, the City had the following investments:

	Par	Cost	Fair Value
Investments			
Money market funds	\$ 2	\$ 2	\$ 2
Local Agency Investment Fund (LAIF)	4,054,267	4,054,267	4,054,267
Total Investments	\$ 4,054,269	\$ 4,054,269	\$ 4,054,269

The fair value for the money market funds was obtained from the custodial bank statements of Securities America.

Interest Rate Risk

The City manages its exposure to declines in fair values by investing excess cash in the State's Local Agency Investment Fund. Funds held in this account are available on demand.

Credit Risk

The City authorizes participation in the following types of investments: FDIC Insured Accounts, Local Agency Investment Fund, and United States Government Securities. All money market funds are funds reserved for the postclosure costs associated with the landfill. The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the City Investment Pool's fair value at June 30, 2016.

	Moody's	% of Portfolio
Money market funds	Unrated	0.00%
Local Agency Investment Fund (LAIF)	Unrated	100.00%
Total Pooled Investments		100.00%

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 3: **CASH AND INVESTMENTS** (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2016, the recorded amount of the City's deposits was \$438,279 and the bank balance was \$464,287. Of the bank statement balance \$250,000 was covered by federal depository insurance and \$214,287 was subject to collateralization.

Local Agency Investment Fund

The City maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the state in addition to those deposited in LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. At June 30, 2016, the City's investment position in LAIF was \$4,054,267 which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in PMIA on that day was \$75.3 billion. Of that amount, 2.81% was invested in structured notes and asset-backed securities with the remaining 97.19% invested in other non-derivative financial products.

Fair Value Measurement

The City categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. All of the City's investments are considered to be Level 1 investments as of June 30, 2016.

NOTE 4: **LOANS AND NOTES RECEIVABLE**

During the fiscal year ended June 30, 2012, the City extended a loan to Eastern Plumas Health Care District in the amount of \$348,000. The loan bears initial interest of 1.48% per year to be adjusted annually to reflect LAIF interest rate plus 1 percent. The term of the loan is 168 months. As of June 30, 2016, the outstanding balance was \$280,533. Additionally, the City has a loan receivable in the amount of \$28,161, which are comprised of loans to individuals for community development. The City also issued Community Development Block Grant (CDBG) loans in the amount of \$51,135. The final receivable is related to the CDBG Grant reimbursement request of \$225,135. The total loans and notes receivable at June 30, 2016 is \$584,848.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Transfers & Retirements	Balance June 30, 2016
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 746,277	\$ --	\$ --	\$ 746,277
Construction in progress	330,348	543,972	(203,657)	670,663
Total capital assets, not being depreciated	<u>1,076,625</u>	<u>543,972</u>	<u>(203,657)</u>	<u>1,416,940</u>
Capital assets, being depreciated:				
Infrastructure	10,603,983	--	--	10,603,983
Buildings and improvements	1,476,458	--	203,657	1,680,115
Machinery and equipment	1,276,153	3,870	(4,259)	1,275,764
Total capital assets, being depreciated	<u>13,356,594</u>	<u>3,870</u>	<u>199,398</u>	<u>13,559,862</u>
Less accumulated depreciation for:				
Infrastructure	(4,232,898)	(528,094)	--	(4,760,992)
Buildings and improvements	(778,629)	(98,203)	--	(876,832)
Machinery and equipment	(1,007,307)	(68,942)	4,259	(1,071,990)
Total accumulated depreciation	<u>(6,018,834)</u>	<u>(695,239)</u>	<u>4,259</u>	<u>(6,709,814)</u>
Total capital assets, being depreciated, net	<u>7,337,760</u>	<u>(691,369)</u>	<u>203,657</u>	<u>6,850,048</u>
Governmental activities capital assets, net	<u>\$ 8,414,385</u>	<u>\$ (147,397)</u>	<u>\$ --</u>	<u>\$ 8,266,988</u>
	Balance July 1, 2015	Additions	Transfers & Retirements	Balance June 30, 2016
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 62,844	\$ --	\$ --	\$ 62,844
Construction in progress	169,008	9,359	--	178,367
Total capital assets, not being depreciated	<u>231,852</u>	<u>9,359</u>	<u>--</u>	<u>241,211</u>
Capital assets, being depreciated:				
Buildings and improvements	8,418,575	26,246	--	8,444,821
Machinery and equipment	1,102,844	11,276	(20,213)	1,093,907
Total capital assets, being depreciated	<u>9,521,419</u>	<u>37,522</u>	<u>(20,213)</u>	<u>9,538,728</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,844,515)	(196,351)	--	(3,040,866)
Machinery and equipment	(981,049)	(34,137)	20,213	(994,973)
Total accumulated depreciation	<u>(3,825,564)</u>	<u>(230,488)</u>	<u>20,213</u>	<u>(4,035,839)</u>
Total capital assets, being depreciated, net	<u>5,695,855</u>	<u>(192,966)</u>	<u>--</u>	<u>5,502,889</u>
Business-type activities, net	<u>\$ 5,927,707</u>	<u>\$ (183,607)</u>	<u>\$ --</u>	<u>\$ 5,744,100</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 5: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 30,150
Parks and recreation	117,685
Public safety	2,041
Public works	50,989
Snow removal	8,284
Streets and roads	<u>486,090</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 695,239</u></u>
Business-Type Activities	
Water Fund	\$ 125,265
Sewer Fund	101,030
Solid Waste Fund	<u>4,193</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 230,488</u></u>

NOTE 6: LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2016 consisted of the following:

	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2016</u>
<u>Business-Type Activities</u>						
1997 Special Assessment Water Improvement Note Payable <i>(to finance improvements to the City's water system)</i>	1997	5/1/2037	5.00%	\$5,000 - \$25,000	\$ 1,173,000	\$ 880,000
1997 Emergency Drought Relief Note	1977	11/1/2017	5.00%	\$3,000 - \$7,000	325,000	37,000
1978 Water System Note <i>(to finance improvement to the City's water system)</i>	1978	11/1/2017	5.00%	\$500 - \$3,500	60,000	6,500
1998 Sewer System Notes <i>(to finance improvements to the City's sewer system)</i>	1998	6/30/2018	1.80%	\$20,071 - \$28,185	<u>478,224</u>	<u>55,872</u>
Total Business-Type Activities					<u><u>\$ 2,036,224</u></u>	<u><u>\$ 979,372</u></u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of long-term liabilities transactions for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	\$ 36,858	\$ 18,424	\$ 8,344	\$ 46,938	\$ 18,424
Total	<u>\$ 36,858</u>	<u>\$ 18,424</u>	<u>\$ 8,344</u>	<u>\$ 46,938</u>	<u>\$ 18,424</u>
Business-type Activities:					
Notes payable	\$ 1,050,567	--	\$ 71,195	\$ 979,372	\$ 73,686
Postclosure costs	1,211,074	19,619	--	1,230,693	--
Compensated absences	31,701	12,813	11,870	32,644	12,812
Total	<u>\$ 2,293,342</u>	<u>\$ 32,432</u>	<u>\$ 83,065</u>	<u>\$ 2,242,709</u>	<u>\$ 86,498</u>

As of June 30, 2016, annual debt service requirements of business-type activities to maturity are as follows:

Year Ending June 30	<u>Business-Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 73,686	\$ 46,657
2018	76,685	43,821
2019	27,000	41,450
2020	29,000	40,100
2021	30,000	38,650
2022-2026	175,000	169,050
2027-2031	222,000	120,950
2032-2036	282,000	59,650
2037	64,000	3,200
Total	<u>\$ 979,372</u>	<u>\$ 563,528</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 7: INTERFUND TRANSACTIONS AND BALANCES

The composition of interfund balances as of June 30, 2016 is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Governmental	\$ 179,946	To cover cash deficit expected to be recovered through future revenues.
		<u>\$ 179,946</u>	

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Solid Waste	\$ 625,862	To cover cash deficit expected to be recovered through future revenues.
		<u>\$ 625,862</u>	

Transfers:

Transfers are used to subsidize various City operations. The following schedule briefly summarizes the City's transfer activity for the fiscal year ended June 30, 2016:

<u>Transfer From</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	\$ 195,005
		<u>\$ 195,005</u>

NOTE 8: FUND DISCLOSURES

The following funds had a net position/fund balance deficit at the end of the fiscal year:

	<u>Deficit Fund Balance</u>
Enterprise Funds:	
Solid Waste Fund	\$ (1,786,643)
Special Revenue Funds:	
STIP	(7,307)

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 8: **FUND DISCLOSURES** (continued)

The Solid Waste Fund has incurred a deficit net position balance as a result of recognition of the estimated liability for the landfill postclosure care costs. The City has established a solid waste surcharge included in its utility billings to reduce the deficit in this fund.

The STIP Fund has a deficit fund balance of \$7,307, which is expected to be eliminated by future revenues and general fund transfers, if needed.

For the year ended June 30, 2016, total expenditures exceeded appropriations for the following funds:

	Amount in Excess of <u>Appropriations</u>
Governmental Funds:	
General Fund	\$ 222,671

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

A. General Information about the Pension Plans

Plan Description

The City of Portola provides pension benefits to eligible employees through cost sharing multiple-employer defined benefit pension plans (pension plans) administered by the California Public Employees Retirement System (PERS), a public employee retirement system which acts as a common investment and administrative agent for participating public entities within the State of California. All qualified permanent and probationary employees are eligible to participate in the City’s pension plans. The City’s Miscellaneous Plans (Tier I and Tier II) and PEPRA Miscellaneous Plan are both cost-sharing multiple-employer defined benefit plans. Benefit provisions and other requirements are established by State statute and City resolution. The City’s defined benefit pension plans provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The City selects optional benefit provisions by contract with PERS and adopts those benefits through City ordinance. Copies of PERS annual financial reports which include required supplementary information (RSI) for each plan may be obtained from PERS Executive Offices, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

All pension plans provide benefits, upon retirement, disability or death of members. Retirement benefits are based on years of service, final average compensation, and retirement age. Employees terminating before accruing five years of retirement service credit forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within a prescribed time period. Non-vested employees who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Employees who terminate service after earning five years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Differences between expected and actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 9: DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. General Information about the Pension Plans (continued)

Benefits Provided (continued)

Non-service related disability benefits are provided to miscellaneous members. The benefit is based on final compensation, multiplied by *service*, which is determined as follows:

- *Service* is CalPERS credited service, for members with less than 10 years or service or greater than 18.518 years of service; of
- *Service* is CalPERS credited service plus the additional number of years that the member would have worked until age 60, for members with at least 10 years but not more than 18.518 years of service. Death benefits are based upon a variety of factors including whether the participant was retired or not.

Annual cost-of-living adjustments (COLAs) after retirement are provided in all plans. COLAs are granted to retired members each May based upon the Bureau of Labor Statistics Average Consumer Price Index for All Urban Consumers for the previous calendar year and is subject to a maximum of 2% per annum.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Tier I	Miscellaneous Tier II	PEPRA
Hire Date	Prior to July 1, 2012	On or after July 1, 2012	On or after January 2, 2013
Benefit formula	2.7% @ 55 5 years of credited service	2.0% @ 60 5 years of credited service	2.0% @ 62 5 years of credited service
Benefit vesting schedule			
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Monthly benefits, as % of eligible compensation	2.0%-2.7%	1.1%-2.4%	1.0%-2.5%
Required employee contribution rates	8.0%	7.0%	6.3%
Required employer contribution rates	10.007%	10.007%	6.250%
Status	Open	Open	Open

Employees Covered

Information regarding the number of employees covered by the benefit terms for the Miscellaneous Plans is not available for cost-sharing multiple-employer defined benefit pension plans.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 9: DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. General Information about the Pension Plans (continued)

Contributions

Section 20814© of the California Public Employees’ Retirement Law requires 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 both Plans 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 City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	PEPRA
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varies by Entry Age and Service	
Investment Rate of Return	7.50% ⁽¹⁾	7.50% ⁽¹⁾
Mortality	Derived using CalPERS' Membership Data for All Funds	

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Change of Assumption

GASB 68, paragraph 68 states that the 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 changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (CONTINUED)

B. Net Pension Liability (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for each 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.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until there is a change in methodology.

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 investment expense and inflation) are developed for each major asset class.

The long-term expected rate of return includes both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) 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 long-term expected real rates by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

C. Changes in the Net Pension Liability

Sensitivity of the Net Pension Liability to Change in the Discount Rate

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (CONTINUED)

C. Changes in the Net Pension Liability (continued)

1% Decrease		6.65%
Net Pension Liability	\$	655,134
Current Discount Rate		7.65%
Net Pension Liability	\$	394,917
1% Increase		8.65%
Net Pension Liability	\$	172,273

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized pension expense of \$8,096. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,684	\$ --
Changes in assumptions	--	25,397
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	--	29,951
Net differences between projected and actual earnings on pension plan investments	--	12,732
Adjustment due to differences in proportions	19,933	--
City contributions subsequent to the measurement date	<u>43,236</u>	<u>--</u>
Total	<u>\$ 65,853</u>	<u>\$ 68,080</u>

\$43,236 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 9: DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Year Ending June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (14,873)
2018	(14,873)
2019	(12,535)
2020	(3,182)
Total	\$ (45,463)

NOTE 10: OTHER POST-EMPLOYMENT BENEFITS

The City does not offer health insurance benefits to its retirees. By resolution number 2071 the City has confirmed that retirees are only eligible to receive those benefits offered to them by participation in the State of California Public Employees Retirement System (PERS), as well as those that they may be eligible for under the federal Medicare program.

NOTE 11: LANDFILL CLOSURE AND POSTCLOSURE CARE COST

The City is responsible for one closed landfill site. State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. GASB Statement No. 18 requires a portion of these closure and postclosure care costs be reported as an operating expense in each period based on landfill capacity used as of each statement of net position date. Since the landfill is no longer accepting waste, the entire estimated expense and related liability have been reported.

As of June 30, 2016, the City's estimated liability for postclosure maintenance costs for the landfill was \$1,230,693. This estimate is based on the amount that would be paid if all equipment, facilities, and services required to close and/or monitor the landfills were acquired as of the balance sheet date. The costs for landfill postclosure maintenance costs are based on yearly estimates, reviewed by the California Integrated Waste Management Board, as prepared by TGV Solid Waste, Inc. Actual costs may be higher due to inflation, change in technology, or changes in regulations. The City has applied the annual inflation factor to the liability each year and has reduced the liability by actual expenses incurred.

The City is required by the California Code of Regulations to demonstrate financial responsibility for postclosure maintenance costs. The City has met this requirement for the Portola landfill through a pledge of revenue.

NOTE 12: RISK MANAGEMENT

The City of Portola is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The City participates in joint powers agreements through the Small Cities Organized Risk Effort (SCORE) and California Joint Powers Risk Management Authority (CJPRMA). The relationship between the City and the JPAs is such that the JPAs are not considered a component unit of the City for financial reporting purposes.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2016

NOTE 12: **RISK MANAGEMENT** (continued)

The JPAs arrange for and provide liability coverage for members. Each JPA is governed by a board consisting of a representative from each member. The Board controls the operations of the JPA including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

The City participates in a Banking Plan for the first \$25,000 of loss. The portion of loss greater than \$25,000 but less than \$500,000 is shared among the Member Cities in the Shared Risk Pool. The City participates in the CJPRMA for the portion of losses greater than \$500,000 to a maximum of \$10,000,000. The liability related to the Banking Plan was deemed immaterial.

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses that have been reported but not settled, and of claims that have been incurred but not reported (IBNR)). The length of time for which such costs must be estimated varies in the coverage involved. Estimated amounts of salvage and subrogation and excess-insurance recoverable on unpaid claims are deducted from the liability for unpaid claims.

NOTE 13: **COMMITMENTS & CONTINGENCIES**

The City is subject to various lawsuits, inverse condemnation cases, personnel actions, and other actions incidental to the ordinary course of City operations. In the opinion of the City attorney, with the exception of the item discussed below, the total potential claims against the City covered by insurance resulting from litigation would not materially affect the financial statements of the City at June 30, 2016.

State of California

On March 17, 2009, the City, along with numerous other plaintiffs, filed complaint against the State of California seeking damages for loss of sales tax revenue, property tax revenue and other damages caused by the State's poisoning of Lake Davis to eradicate the Northern Pike. In its Fourth Amended Complaint, the City has alleged causes of action based upon public nuisance, private nuisance, negligence, inverse condemnation, intentional interference with prospective economic advantage and negligent interference with prospective economic advantage.

The case went to trial October 6-21, 2015. On October 22, 2015, the jury reached a verdict, finding among other things that the State was negligent in the restocking of Lake Davis. However, the jury did not award the City any damages. On April 4, 2016, the Court issued a Minute Order – Court Order in which it denied the City's motions for partial judgement notwithstanding the verdict and new trial and ordered the City to pay the State \$270,747 in fees and costs. Although the parties were in discussion about payment, the State threatened legal action if the City did not pay. Subsequently, the City made a formal offer to the State regarding payment, which to date, has not been accepted or rejected, and the \$270,747 remains due to the State and is included within accounts payable as of June 30, 2016.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PORTOLA

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Schedule of Proportionate Share of the Net Pension Liability / (Asset) and Related Ratios as of the Measurement Date

Miscellaneous Plans – Cost-sharing Multiple-Employer Defined Benefit Pension Plans

Last 10 Fiscal Years*

	Miscellaneous Plans	
	6/30/2015	6/30/2014
Proportion of the net pension liability	\$ 394,917	\$ 237,694
Proportionate share of the net pension liability	0.00124%	0.00077%
Covered - employee payroll	\$ 317,876	\$ 580,058
Proportionate share of the net pension liability as a percentage of the Plan's fiduciary net position	\$ 2,385,905	\$ 2,388,248
Plan fiduciary net position as a percentage of the total pension liability	85.80%	90.05%

*Amounts presented above were determined as of June 30. Additional years will be presented as they become available.

CITY OF PORTOLA

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

Schedule of Pension Plan Contributions

Miscellaneous Plans – Cost-sharing Multiple-Employer Defined Benefit Pension Plans

Last 10 Fiscal Years*

	Miscellaneous Plans	
	<u>6/30/2015</u>	<u>6/30/2014</u>
Actuarially determined contribution	\$ 24,089	\$ 39,686
Contributions in relation to the actuarially determined contributions	41,882	39,686
Contributions deficiency (excess)	<u>\$ (17,793)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 337,555	\$ 580,058
Contributions as a percentage of covered employee payroll	12.41%	6.84%

*Amounts presented above were determined as of June 30. Additional years will be presented as they become available.

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 495,963	\$ 562,469	\$ 616,279	\$ 53,810
Licenses and permits	56,000	56,000	79,147	23,147
Fines, forfeitures and penalties	3,000	3,000	473	(2,527)
Use of money and property	10,648	10,648	17,643	6,995
Intergovernmental	255,000	277,720	257,032	(20,688)
Charges for services	39,920	39,920	48,157	8,237
Other revenues	2,000	34,121	35,237	1,116
Total Revenues	<u>862,531</u>	<u>983,878</u>	<u>1,053,968</u>	<u>70,090</u>
Expenditures				
Current:				
General government	229,993	271,993	534,214	(262,221)
Planning and community development	116,297	152,197	143,617	8,580
Public safety	216,892	365,535	338,375	27,160
Public works	90,063	104,402	83,144	21,258
Parks and recreation	106,465	108,881	126,329	(17,448)
Total Expenditures	<u>759,710</u>	<u>1,003,008</u>	<u>1,225,679</u>	<u>(222,671)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>102,821</u>	<u>(19,130)</u>	<u>(171,711)</u>	<u>152,581</u>
Other Financing Sources (Uses)				
Transfers out	<u>(201,468)</u>	<u>(201,468)</u>	<u>(195,005)</u>	<u>6,463</u>
Total Other Financing Sources (Uses)	<u>(201,468)</u>	<u>(201,468)</u>	<u>(195,005)</u>	<u>(6,463)</u>
Net Change in Fund Balances	(98,647)	(220,598)	(366,716)	146,118
Fund Balances, Beginning of Year	<u>3,537,346</u>	<u>3,537,346</u>	<u>3,537,346</u>	<u>--</u>
Fund Balances, End of Year	<u>\$ 3,438,699</u>	<u>\$ 3,316,748</u>	<u>\$ 3,170,630</u>	<u>\$ 146,118</u>

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 State Transportation Improvement Plan
 For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ --	\$ 458,389	\$ 458,389	\$ --
Other revenues	--	--	1,000	(1,000)
Total Revenues	<u>--</u>	<u>458,389</u>	<u>459,389</u>	<u>--</u>
Expenditures				
Current:				
Streets and roads	--	421,516	421,516	--
Total Expenditures	<u>--</u>	<u>421,516</u>	<u>421,516</u>	<u>--</u>
Net Change in Fund Balances	--	36,873	37,873	--
Fund Balances, Beginning of Year	<u>(45,180)</u>	<u>(45,180)</u>	<u>(45,180)</u>	<u>--</u>
Fund Balances, End of Year	<u><u>\$ (45,180)</u></u>	<u><u>\$ (8,307)</u></u>	<u><u>\$ (7,307)</u></u>	<u><u>\$ --</u></u>

CITY OF PORTOLA

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

BUDGETS AND BUDGETARY ACCOUNTING

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

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Budget adjustments from reserves and between funds are approved by the City Council and budget transfers within fund or department are approved by the City Manager. Expenditures may not legally exceed budgeted appropriations at the fund level for all funds without the City Council's approval.
5. Budgets are adopted for the General Fund and Special Revenue Funds.
6. Formal budgetary integration is employed as a management control device during the year in all funds.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds.

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SUPPLEMENTARY INFORMATION

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NONMAJOR SPECIAL REVENUE FUNDS

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CITY OF PORTOLA

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Snow Removal	Gas Tax Funds	Community Development Block Grant	Total
Assets				
Cash and investments	\$ 3,879	\$ 6,814	\$ 215,859	\$ 226,552
Interest receivable	--	--	244	244
Notes receivable, net	--	--	79,296	79,296
Total Assets	\$ 3,879	\$ 6,814	\$ 295,399	\$ 306,092
 Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 1,768	\$ 2,414	\$ 3,874	\$ 8,056
Accrued salaries and benefits payable	2,111	4,400	3,009	9,520
Total Liabilities	3,879	6,814	6,883	17,576
 Fund Balance:				
Restricted	--	--	288,516	288,516
Total Fund Balance	--	--	288,516	288,516
Total Liabilities and Fund Balance	\$ 3,879	\$ 6,814	\$ 295,399	\$ 306,092

CITY OF PORTOLA

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

	Snow Removal	Gas Tax Funds	Community Development Block Grant	Total
Revenues				
Use of money and property	\$ --	\$ --	\$ 1,289	\$ 1,289
Intergovernmental	52,787	48,341	--	101,128
Other revenues	--	--	100	100
Total Revenues	<u>52,787</u>	<u>48,341</u>	<u>1,389</u>	<u>102,517</u>
Expenditures				
Current:				
Public safety	--	26,051	--	26,051
Streets and roads	158,124	111,958	--	270,082
Planning and community development	--	--	182,744	182,744
Total Expenditures	<u>158,124</u>	<u>138,009</u>	<u>182,744</u>	<u>478,877</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(105,337)	(89,668)	(181,355)	(376,360)
Other Financing Sources (Uses)				
Transfers in	105,337	89,668	--	195,005
Total Other Financing Sources (Uses)	<u>105,337</u>	<u>89,668</u>	<u>--</u>	<u>195,005</u>
Net Change in Fund Balances	--	--	(181,355)	(181,355)
Fund Balances, Beginning of Year	<u>--</u>	<u>--</u>	<u>469,871</u>	<u>469,871</u>
Fund Balances, End of Year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 288,516</u>	<u>\$ 288,516</u>

OTHER REPORTS

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

To the Honorable Mayor and Council Members
Portola, California

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The City of Portola (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise The City of Portola's basic financial statements,¹ and have issued our report thereon dated December 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 entity'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain significant deficiency in internal control, described as follows:

2016-001 - ADJUSTING JOURNAL ENTRIES

Comment:

Auditing standards require auditors to include as an internal control weakness material audit adjustments detected during the audit. For the year ended June 30, 2016, material adjustments detected by the audit process were as follows:

- An entry to correct revenue recorded in the General Fund that was not received within the City's 60 day availability period subsequent to June 30, 2016.

2016-001 - ADJUSTING JOURNAL ENTRIES (continued)

Recommendation:

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors potential areas of adjustment that may need to be addressed during the audit process. This will help reduce the risk of material misstatement.

Management Response:

Management agrees with the auditor's recommendation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

The City's Response to Findings

The City's response to the finding 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Roseville, California
December 30, 2016