

**CITY OF PORTOLA
AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2014**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF PORTOLA

Table of Contents

	<u>Page</u>
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis (MD & A)	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	15
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances.....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities	18
Proprietary Funds:	
Statement of Fund Net Position.....	19
Statement of Revenues, Expenses and Changes in Fund Net Position	20
Statement of Cash Flows.....	21-22
Notes to Financial Statements.....	23-38
Required Supplementary Information:	
Status of Funding Progress	39
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	40
State Transportation Improvement Plan.....	41
Note to Required Supplementary Information:	
Budgets and Budgetary Accounting	42
Supplementary Information:	
Combining and Individual Nonmajor Fund Statements:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	44
Other Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45-46

THIS PAGE INTENTIONALLY LEFT BLANK



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, 2014, 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, 2014, 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.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 11, 2014 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 11, 2014

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

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, 2014. 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 of the City exceeded its liabilities at the close of the most recent fiscal year by \$17,854,407 (net position):

- \$13,922,944 represents the City's investment in capital assets, less any related outstanding debt used to acquire those assets (net investment in capital assets).
- \$458,915 is available for the City's ongoing obligations related to programs with external restrictions (restricted net position).
- \$3,472,548 is available to fund City programs for citizens and debt obligations to creditors (unrestricted net position).

The City's total net position decreased by \$1,233,462 from the prior year:

- The \$557,897 decrease in net position net investment in capital assets represents infrastructure and other additions of \$292,913 less depreciation of \$916,051 and the retirement of related long-term debt of \$65,241.
- The \$567,321 decrease 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 5.

B. Financial Analysis of the City's Funds

The City's governmental funds combined ending fund balance of \$3,820,084 was an increase of \$158,992 from the prior year ending fund balance of \$3,661,162. Amounts available for spending include restricted, committed, assigned, and unassigned fund balances; these totaled \$3,327,838, or 90% of ending fund balance. Of this amount, \$148,287 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, 2014

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 budgetary comparisons for the General Fund as required supplementary information.

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.

Statement of Net Position

	Governmental Activities		Business-Type Activities		Total		Total	
	2014	2013	2014	2013	2014	2013	Dollar Change	Percent Change
Current and other assets	\$ 4,355,503	\$ 5,402,583	\$ 2,261,059	\$ 1,642,855	\$ 6,616,562	\$ 7,045,438	\$ (428,876)	-6%
Capital assets	9,058,002	9,501,494	5,983,223	6,162,869	15,041,225	15,664,363	(623,138)	-4%
Total Assets	<u>13,413,505</u>	<u>14,904,077</u>	<u>8,244,282</u>	<u>7,805,724</u>	<u>21,657,787</u>	<u>22,709,801</u>	<u>(1,052,014)</u>	<u>-5%</u>
Current and other liabilities	76,004	68,058	185,734	159,236	261,738	227,294	34,444	15%
Long term liabilities	17,638	20,564	3,524,004	3,374,074	3,541,642	3,394,638	147,004	4%
Total Liabilities	<u>93,642</u>	<u>88,622</u>	<u>3,709,738</u>	<u>3,533,310</u>	<u>3,803,380</u>	<u>3,621,932</u>	<u>181,448</u>	<u>5%</u>
Invested in capital assets, net	9,058,002	9,501,494	4,864,942	4,979,347	13,922,944	14,480,841	(557,897)	-4%
Restricted	192,094	195,865	830,835	830,371	1,022,929	1,026,236	(3,307)	0%
Unrestricted	4,069,767	5,118,096	(1,161,233)	(1,537,304)	2,908,534	3,580,792	(672,258)	-19%
Total Net Position	<u>\$ 13,319,863</u>	<u>\$ 14,815,455</u>	<u>\$ 4,534,544</u>	<u>\$ 4,272,414</u>	<u>\$ 17,854,407</u>	<u>\$ 19,087,869</u>	<u>\$ (1,233,462)</u>	<u>-6%</u>

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

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 3% of the total net position and are resources subject to external restrictions on how they may be used.

Unrestricted net position represents 24% of the total net position and may be used to meet the City's ongoing obligations to citizens and creditors.

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

	Statement of Activities							
	Governmental Activities		Business-Type Activities		Total		Total	
	2014	2013	2014	2013	2014	2013	Dollar Change	Percent Change
Program revenues:								
Charges for services	\$ 108,844	\$ 99,107	\$ 1,751,453	\$ 1,631,591	\$ 1,860,297	\$ 1,730,698	\$ 129,599	7%
Operating grants & contributions	634,364	1,101,445	5,000	--	639,364	1,101,445	(462,081)	-42%
Capital grants & contributions	380,045	--	--	--	380,045	--	380,045	0%
General revenues:								
Property taxes	225,855	278,936	--	--	225,855	278,936	(53,081)	-19%
Other taxes	277,271	275,677	--	--	277,271	275,677	1,594	1%
Other revenue	61,248	25,137	1,853	1,909	63,101	27,046	36,055	133%
Total Revenues	<u>1,687,627</u>	<u>1,780,302</u>	<u>1,758,306</u>	<u>1,633,500</u>	<u>3,445,933</u>	<u>3,413,802</u>	<u>32,131</u>	<u>1%</u>
Expenses:								
General government	1,412,251	278,791	--	--	1,412,251	278,791	1,133,460	407%
Planning and community development	404,827	182,994	--	--	404,827	182,994	221,833	121%
Public safety	272,040	319,858	--	--	272,040	319,858	(47,818)	-15%
Streets and roads	813,480	788,845	--	--	813,480	788,845	24,635	3%
Public works	67,729	49,893	--	--	67,729	49,893	17,836	36%
Parks and recreation	212,892	164,171	--	--	212,892	164,171	48,721	30%
Water Service	--	--	623,605	655,023	623,605	655,023	(31,418)	-5%
Sewer Service	--	--	497,399	492,842	497,399	492,842	4,557	1%
Solid Waste	--	--	375,172	189,727	375,172	189,727	185,445	98%
Total Expenses	<u>3,183,219</u>	<u>1,784,552</u>	<u>1,496,176</u>	<u>1,337,592</u>	<u>4,679,395</u>	<u>3,122,144</u>	<u>1,557,251</u>	<u>50%</u>
Change in net position before transfers	(1,495,592)	(4,250)	262,130	295,908	(1,233,462)	291,658	(1,525,120)	-523%
Transfers	--	--	--	--	--	--	--	0%
Net Position - July 1	<u>14,815,455</u>	<u>14,819,705</u>	<u>4,272,414</u>	<u>3,976,506</u>	<u>19,087,869</u>	<u>18,796,211</u>	<u>291,658</u>	<u>2%</u>
Net Position - June 30	<u>\$ 13,319,863</u>	<u>\$ 14,815,455</u>	<u>\$ 4,534,544</u>	<u>\$ 4,272,414</u>	<u>\$ 17,854,407</u>	<u>\$ 19,087,869</u>	<u>\$ (1,233,462)</u>	<u>-6%</u>

- Governmental activities reported a \$1,495,592 decrease in net position, and business-type activities reported an increase of \$262,130, for a net decrease of \$1,233,462.

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.

CITY OF PORTOLA

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

At June 30, 2014, the City's governmental funds reported combined ending fund balances of \$3,820,084. Approximately 86% of this total amount, or \$3,276,519, 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, 2014, total fund balance less the non-spendable portion of the General Fund was \$3,049,727 while total fund balance was \$3,327,838. As measures of the general fund's liquidity, it is useful to note that available fund balance represents 240% 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 2014		FY 2013		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Taxes	\$ 503,126	27%	\$ 554,613	40%	\$ (51,487)	-9%
Licenses and permits	57,394	3%	54,531	4%	2,863	5%
Fines & forfeitures	2,799	0%	1,987	0%	812	41%
Use of money & property	10,586	1%	18,411	1%	(7,825)	-43%
Intergovernmental	1,201,946	64%	707,643	51%	494,303	70%
Charges for Services	48,384	3%	42,856	3%	5,528	13%
Other	50,662	3%	6,726	0%	43,936	653%
Total	\$ 1,874,897	100%	\$ 1,386,767	100%	\$ 488,130	35%

Significant changes for major revenue sources are explained below.

- Taxes decrease was mainly due to the repayment of Prop 1A in the amount of 43,890 in the prior year
- Licenses and permits were up due to an increase in business license fees
- There was a small increase in the dollar amount from fines and forfeitures brought in by law enforcement activities
- The continued decline in interest income resulted in the reduction of the amounts in "use of money & property"
- Charges for services increased due to increased pool revenue

CITY OF PORTOLA

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

- The large increase in intergovernmental from 2013 was the Grant funded projects and the ongoing A-15 project through STIP
- The increase in "other" is from insurance recovery

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

**Expenditures by Function
Governmental Funds**

	FY 2014		FY 2013		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General government	\$ 359,549	21%	\$ 269,868	17%	\$ 89,681	33%
Planning and community development	631,734	37%	183,933	11%	447,801	243%
Public safety	220,273	13%	344,031	21%	(123,758)	-36%
Streets and roads	327,260	19%	668,012	41%	(340,752)	-51%
Public works	71,478	4%	56,960	3%	14,518	25%
Parks and recreation	105,681	6%	105,754	6%	(73)	0%
Total Expenditures	\$ 1,715,975	100%	\$ 1,628,558	100%	\$ 87,417	5%

Significant changes for major functions are explained below:

- The significant change between 2013 and 2014 in General Government expenditures is additional legal expense due to litigation
- Major grant expenditures are included in Planning and Community Development, a public facilities CDBG grant, and a grant from Sierra Nevada Conservancy
- Public safety decreased as the prior year had 75,000 of safety equipment for the Fire Department and in Law Enforcement the Community Services officers duties were changed
- Streets and Roads decreased due to less expenditure in this year for the A-15 STIP project and a very light snow removal season
- Public Works increased due to a repayment to FEMA and the partial purchase of trucks

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, 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.

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

Differences between the original budget and the final amended budget are mainly due to the revenue and expenditures from Grant funds during the 2014 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 2013/2014, General Fund revenues were more than budget by \$35,458 and General Fund expenditures were \$56,405 less than budgeted. The City budgeted \$51,112 for the use of fund balance and did use \$149,155 of fund balance in the shortfall of revenues over expenditures.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The change in capital assets for the Governmental Activities totaled \$443,492, net of depreciation for an ending balance of \$9,058,002.

Business-type capital assets for the fiscal year ending June 30, 2014, were \$5,983,223, net of depreciation. This is a decrease in Capital Assets of \$179,646 which is a combination of asset additions of \$60,913, and depreciation of \$240,559. 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, 2014, the City had long-term debt outstanding of \$1,135,081. This is a decrease over June 30, 2013 of \$82,041. 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 7 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 2014-2015 City Council **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 February City staff, the general public and City Council participated in a FY 2014-2015 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. In the two years leading up to the 2013-2014 budget payroll expenses had been reduced overall by 24% by combining the City Manager and City Administrative Services Manager positions in to one position and not filling a vacant public works position. The former City Manager retired as of June 30, 2014 and the funding for a new City Manager was included in the 2013-2014 budget as well as additional funding to be used for staffing changes as needed. During the 2013-2014 year the new City Manager left and current staff performed the duties needed in place of a City Manager. The 2014-2015 budget once again includes funding for a full-time City Manager. As part of the continuous review of the City's financial state the City changed the health insurance plan for full-time employees which results in a cost savings to the City of approximately 24,000 per year. 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 finance discussions. The City has been able to fund major projects in advance of reimbursements because of the reserves that it currently maintains.

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

The Budget utilizes a projected \$ 74,927 of the General Fund's fund balance to eliminate a projected shortfall of revenues over expenditures in the General Fund. The 2014-2015 General Fund original budgeted expenditures are \$936,390 compared to \$904,748 for 2013-2014. This budget included approximately 30,000 of expenditures that are considered one time. 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 use 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 has caused their Net Assets to decline. The Water fund has a deficit cash balance with the exception of monies that are restricted for specific purposes. A rate increase equivalent to the cost of living was adopted in this budget and there is hope that it will help the Water and Sewer funds to recover. 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 2014-2015 fiscal year there will be the need for Solid Waste to increase the amount it 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. 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.

THIS PAGE INTENTIONALLY LEFT BLANK

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

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF PORTOLA

Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and investments	\$ 2,958,388	\$ 204,375	\$ 3,162,763
Restricted Assets:			
Restricted cash	--	830,835	830,835
Restricted investments	--	1,093,321	1,093,321
Imprest cash	335	--	335
Accounts receivable	321,601	244,638	566,239
Interest receivable	1,598	502	2,100
Due from other governments	123,669	165,499	289,168
Loans and notes receivable	671,801	--	671,801
Internal balances	278,111	(278,111)	--
Capital Assets:			
Nondepreciable	1,044,634	62,844	1,107,478
Depreciable, net	8,013,368	5,920,379	13,933,747
Total Assets	<u>13,413,505</u>	<u>8,244,282</u>	<u>21,657,787</u>
Liabilities			
Accounts payable	26,347	24,585	50,932
Accrued salaries and benefits payable	16,850	11,447	28,297
Deposits	12,432	26,058	38,490
Deferred revenue	4,500	--	4,500
Accrued interest	--	26,707	26,707
Long-Term Liabilities:			
Portion due or payable within one year:			
Compensated absences	15,875	12,423	28,298
Notes payable	--	84,514	84,514
Portion due or payable after one year:			
Compensated absences	17,638	13,803	31,441
Notes payable	--	1,050,567	1,050,567
Liability for landfill closure and postclosure	--	2,459,634	2,459,634
Total Liabilities	<u>93,642</u>	<u>3,709,738</u>	<u>3,803,380</u>
Net Position			
Net investment in capital assets	9,058,002	4,864,942	13,922,944
Restricted:			
Planning and community development	118,734	--	118,734
General government	73,360	--	73,360
Capital improvements	--	740,598	740,598
Debt service	--	90,237	90,237
Unrestricted	4,069,767	(1,161,233)	2,908,534
Total Net Position	<u>\$ 13,319,863</u>	<u>\$ 4,534,544</u>	<u>\$ 17,854,407</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, 2014

Functions/Programs	Expenses	Program Revenues	
		Fees, Fines and Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General government	\$ 1,412,251	\$ 45,019	\$ 144,984
Planning and community development	404,827	672	555,751
Public safety	272,040	41,151	119,988
Streets and roads	813,480	--	(186,359)
Public works	67,729	--	--
Parks and recreation	212,892	22,002	--
Total Governmental Activities	<u>3,183,219</u>	<u>108,844</u>	<u>634,364</u>
Business-Type Activities:			
Water Service	\$ 623,605	837,132	--
Sewer Service	497,399	577,721	--
Solid Waste	375,172	336,600	5,000
Total Business-Type Activities:	<u>1,496,176</u>	<u>1,751,453</u>	<u>5,000</u>
Total City of Portola	<u>\$ 4,679,395</u>	<u>\$ 1,860,297</u>	<u>\$ 639,364</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

Capital Grants and Contributions	Primary Government		Total
	Governmental Activities	Business-Type Activities	
\$ --	\$ (1,222,248)	\$ --	\$ (1,222,248)
--	151,596	--	151,596
--	(110,901)	--	(110,901)
380,045	(619,794)	--	(619,794)
--	(67,729)	--	(67,729)
--	(190,890)	--	(190,890)
<u>380,045</u>	<u>(2,059,966)</u>	<u>--</u>	<u>(2,059,966)</u>
--	--	213,527	213,527
--	--	80,322	80,322
--	--	(33,572)	(33,572)
--	--	<u>260,277</u>	<u>260,277</u>
<u>\$ 380,045</u>	<u>(2,059,966)</u>	<u>260,277</u>	<u>(1,799,689)</u>
	225,855	--	225,855
	218,974	--	218,974
	58,297	--	58,297
	10,586	1,853	12,439
	50,662	--	50,662
	<u>564,374</u>	<u>1,853</u>	<u>566,227</u>
	(1,495,592)	262,130	(1,233,462)
	14,815,455	4,272,414	19,087,869
<u>\$ 13,319,863</u>	<u>\$ 4,534,544</u>	<u>\$ 17,854,407</u>	

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

CITY OF PORTOLA

Balance Sheet
Governmental Funds
June 30, 2014

	General	State Transportation Improvement Plan	Other Governmental Funds	Total
Assets				
Cash and investments	\$ 2,555,973	\$ --	\$ 402,415	\$ 2,958,388
Imprest cash	335	--	--	335
Notes receivable	555,857	--	115,944	671,801
Accounts receivable	314,781	--	6,820	321,601
Interest receivable	1,398	--	200	1,598
Due from other funds	91,691	--	--	91,691
Advances to other funds	278,111	--	--	278,111
Due from other governmental agencies	47,763	72,930	2,976	123,669
Total Assets	<u>\$3,845,909</u>	<u>\$ 72,930</u>	<u>\$ 528,355</u>	<u>\$4,447,194</u>
Liabilities				
Accounts payable	\$ 12,678	\$ 11,500	\$ 5,848	\$ 30,026
Accrued salaries and benefits payable	13,171	--	--	13,171
Deposits from others	12,432	--	--	12,432
Due to other funds	--	86,800	4,891	91,691
Total Liabilities	<u>38,281</u>	<u>98,300</u>	<u>10,739</u>	<u>147,320</u>
Deferred Inflows of Resources				
Unavailable revenue	479,790	--	--	479,790
Total Deferred Inflows of Resources	<u>479,790</u>	<u>--</u>	<u>--</u>	<u>479,790</u>
Fund Balance				
Nonspendable	278,111	--	--	278,111
Restricted	73,360	--	118,734	192,094
Committed	74,927	--	--	74,927
Assigned	--	--	398,882	398,882
Unassigned	2,901,440	(25,370)	--	2,876,070
Total Fund Balance	<u>3,327,838</u>	<u>(25,370)</u>	<u>517,616</u>	<u>3,820,084</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 3,845,909</u>	<u>\$ 72,930</u>	<u>\$ 528,355</u>	<u>\$ 4,447,194</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF PORTOLA

Balance Sheet
Governmental Funds
June 30, 2014

	General	State Transportation Improvement Plan	Other Governmental Funds	Total
Assets				
Cash and investments	\$ 2,555,973	\$ --	\$ 402,415	\$ 2,958,388
Imprest cash	335	--	--	335
Notes receivable	555,857	--	115,944	671,801
Accounts receivable	314,781	--	6,820	321,601
Interest receivable	1,398	--	200	1,598
Due from other funds	91,691	--	--	91,691
Advances to other funds	278,111	--	--	278,111
Due from other governmental agencies	47,763	72,930	2,976	123,669
Total Assets	<u>\$3,845,909</u>	<u>\$ 72,930</u>	<u>\$ 528,355</u>	<u>\$4,447,194</u>
Liabilities				
Accounts payable	\$ 12,678	\$ 11,500	\$ 5,848	\$ 30,026
Accrued salaries and benefits payable	13,171	--	--	13,171
Deposits from others	12,432	--	--	12,432
Due to other funds	--	86,800	4,891	91,691
Total Liabilities	<u>38,281</u>	<u>98,300</u>	<u>10,739</u>	<u>147,320</u>
Deferred Inflows of Resources				
Unavailable revenue	479,790	--	--	479,790
Total Deferred Inflows of Resources	<u>479,790</u>	<u>--</u>	<u>--</u>	<u>479,790</u>
Fund Balance				
Nonspendable	278,111	--	--	278,111
Restricted	73,360	--	118,734	192,094
Committed	74,927	--	--	74,927
Assigned	--	--	398,882	398,882
Unassigned	2,901,440	(25,370)	--	2,876,070
Total Fund Balance	<u>3,327,838</u>	<u>(25,370)</u>	<u>517,616</u>	<u>3,820,084</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 3,845,909</u>	<u>\$ 72,930</u>	<u>\$ 528,355</u>	<u>\$ 4,447,194</u>

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, 2014

Fund Balance - total governmental funds (from previous page)	\$ 3,820,084
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.	9,058,002
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.	475,290
Compensated absences	<u>(33,513)</u>
Net position of governmental activities	<u><u>\$13,319,863</u></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, 2014

	General	State Transportation Improvement Plan	Other Governmental Funds	Total
Revenues				
Taxes	\$ 503,126	\$ --	\$ --	\$ 503,126
Licenses and permits	57,394	--	--	57,394
Fines, forfeitures and penalties	2,799	--	--	2,799
Use of money and property	9,668	--	918	10,586
Intergovernmental	570,569	380,045	251,332	1,201,946
Charges for services	48,384	--	--	48,384
Other revenues	50,662	--	--	50,662
Total Revenues	<u>1,242,602</u>	<u>380,045</u>	<u>252,250</u>	<u>1,874,897</u>
Expenditures				
Current:				
General government	359,549	--	--	359,549
Planning and community development	607,509	--	24,225	631,734
Public safety	195,571	--	24,702	220,273
Streets and roads	--	144,232	183,028	327,260
Public works	71,478	--	--	71,478
Parks and recreation	105,681	--	--	105,681
Total Expenditures	<u>1,339,788</u>	<u>144,232</u>	<u>231,955</u>	<u>1,715,975</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(97,186)</u>	<u>235,813</u>	<u>20,295</u>	<u>158,922</u>
Other Financing Sources (Uses)				
Transfers in	--	--	51,969	51,969
Transfers out	(51,969)	--	--	(51,969)
Total Other Financing Sources (Uses)	<u>(51,969)</u>	<u>--</u>	<u>51,969</u>	<u>--</u>
Net Change in Fund Balances	(149,155)	235,813	72,264	158,922
Fund Balances, Beginning of Year	<u>3,476,993</u>	<u>(261,183)</u>	<u>445,352</u>	<u>3,661,162</u>
Fund Balances, End of Year	<u>\$ 3,327,838</u>	<u>\$ (25,370)</u>	<u>\$ 517,616</u>	<u>\$ 3,820,084</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, 2014

Net change to fund balance - total governmental funds	\$ 158,922
---	------------

Amounts reported for governmental activities in the statement of activities are different because:

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.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 232,000	
Less: current year depreciation	<u>(675,492)</u>	
		(443,492)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(187,270)
---	-----------

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.	(1,024,865)
---	-------------

Change in compensated absences	<u>1,113</u>
--------------------------------	--------------

Change in net position of governmental activities	<u><u>\$ (1,495,592)</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, 2014

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Assets				
Current Assets:				
Cash and investments	\$ 54,538	\$ 149,837	\$ --	\$ 204,375
Interest receivable	210	292	--	502
Account receivable	123,244	81,052	40,342	244,638
Due from other governmental agencies	165,499	--	--	165,499
Restricted Assets:				
Restricted cash	384,913	445,922	--	830,835
Restricted investments	--	--	1,093,321	1,093,321
Total Current Assets	<u>728,404</u>	<u>677,103</u>	<u>1,133,663</u>	<u>2,539,170</u>
Noncurrent Assets:				
Capital Assets:				
Non depreciable	--	31,422	31,422	62,844
Depreciable, net	3,207,667	2,678,964	33,748	5,920,379
Total Noncurrent Assets	<u>3,207,667</u>	<u>2,710,386</u>	<u>65,170</u>	<u>5,983,223</u>
Total Assets	<u>3,936,071</u>	<u>3,387,489</u>	<u>1,198,833</u>	<u>8,522,393</u>
Liabilities				
Current Liabilities:				
Accounts payable	5,816	13,944	4,825	24,585
Accrued salaries and benefits payable	5,466	5,176	805	11,447
Deposits	26,058	--	--	26,058
Accrued interest	20,009	6,698	--	26,707
Liability for compensated absences	6,033	5,600	790	12,423
Notes payable - current portion	41,000	26,714	16,800	84,514
Total Current Liabilities	<u>104,382</u>	<u>58,132</u>	<u>23,220</u>	<u>185,734</u>
Noncurrent Liabilities				
Liability for compensated absences	6,704	6,222	877	13,803
Advances from other funds	--	--	278,111	278,111
Landfill closure and postclosure	--	--	2,459,634	2,459,634
Notes payable	967,500	83,067	--	1,050,567
Total Noncurrent Liabilities	<u>974,204</u>	<u>89,289</u>	<u>2,738,622</u>	<u>3,802,115</u>
Total Liabilities	<u>1,078,586</u>	<u>147,421</u>	<u>2,761,842</u>	<u>3,987,849</u>
Net Position				
Net investment in capital assets	2,199,167	2,600,605	65,170	4,864,942
Restricted:				
Debt service	90,237	--	--	90,237
Facility fees	294,676	252,461	--	547,137
Capital projects	--	193,461	--	193,461
Unrestricted	273,405	193,541	(1,628,179)	(1,161,233)
Total Net Position	<u>\$ 2,857,485</u>	<u>\$ 3,240,068</u>	<u>\$ (1,563,009)</u>	<u>\$ 4,534,544</u>

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, 2014

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Operating Revenues				
Fines	\$ 13,925	\$ 9,420	\$ 5,007	\$ 28,352
Charges for services	823,207	568,301	331,593	1,723,101
Total Operating Revenues	<u>837,132</u>	<u>577,721</u>	<u>336,600</u>	<u>1,751,453</u>
Operating Expenses				
Salaries and wages	211,906	197,140	27,840	436,886
Services and supplies	227,184	194,186	64,424	485,794
Landfill closure costs	--	--	278,560	278,560
Depreciation	132,590	103,621	4,348	240,559
Total Operating Expenses	<u>571,680</u>	<u>494,947</u>	<u>375,172</u>	<u>1,441,799</u>
Operating Income (Loss)	<u>265,452</u>	<u>82,774</u>	<u>(38,572)</u>	<u>309,654</u>
Non-Operating Revenue (Expenses)				
Interest income (loss)	1,314	1,186	(647)	1,853
Intergovernmental revenue	--	--	5,000	5,000
Debt service interest and fiscal charges	(51,925)	(2,452)	--	(54,377)
Total Non-Operating Revenue (Expenses)	<u>(50,611)</u>	<u>(1,266)</u>	<u>4,353</u>	<u>(47,524)</u>
Changes in Net Position	214,841	81,508	(34,219)	262,130
Net Position, Beginning of Year	<u>2,642,644</u>	<u>3,158,560</u>	<u>(1,528,790)</u>	<u>4,272,414</u>
Net Position, End of Year	<u>\$ 2,857,485</u>	<u>\$ 3,240,068</u>	<u>\$ (1,563,009)</u>	<u>\$ 4,534,544</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, 2014

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Service</u>	<u>Sewer Service</u>	<u>Solid Waste</u>	<u>Total</u>
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 824,533	\$ 558,581	\$ 334,143	\$ 1,717,257
Cash paid to suppliers for goods and services	(225,592)	(181,993)	(104,519)	(512,104)
Cash paid to employees for services	<u>(208,253)</u>	<u>(195,027)</u>	<u>(27,387)</u>	<u>(430,667)</u>
Net Cash Provided (Used) by Operating Activities	<u>390,688</u>	<u>181,561</u>	<u>202,237</u>	<u>774,486</u>
Cash Flows From Noncapital Financing Activities:				
Cash repayments from (to) other funds	(206,864)	--	(67,694)	(274,558)
Cash received from grants	<u>--</u>	<u>--</u>	<u>5,000</u>	<u>5,000</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(206,864)</u>	<u>--</u>	<u>(62,694)</u>	<u>(269,558)</u>
Cash Flows From Capital and Related Financing Activities:				
Principal repayments on long-term debt	(39,000)	(26,241)	(16,800)	(82,041)
Interest repayments related to capital purposes	(51,925)	(2,452)	--	(54,377)
Payments related to the acquisition of capital assets	<u>(39,564)</u>	<u>(21,349)</u>	<u>--</u>	<u>(60,913)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(130,489)</u>	<u>(50,042)</u>	<u>(16,800)</u>	<u>(197,331)</u>
Cash Flows From Investing Activities:				
Interest received or paid	<u>1,203</u>	<u>1,151</u>	<u>(647)</u>	<u>1,707</u>
Net Cash Provided by Investing Activities	<u>1,203</u>	<u>1,151</u>	<u>(647)</u>	<u>1,707</u>
Net Increase (Decrease) in Cash and Cash Equivalents	54,538	132,670	122,096	309,304
Cash and Cash Equivalents, Beginning of Year	<u>384,913</u>	<u>463,089</u>	<u>971,225</u>	<u>1,819,227</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 439,451</u></u>	<u><u>\$ 595,759</u></u>	<u><u>\$ 1,093,321</u></u>	<u><u>\$ 2,128,531</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:				
Cash and cash equivalents in current assets	\$ 54,538	\$ 149,837	\$ --	\$ 204,375
Cash and cash equivalents in restricted assets	<u>384,913</u>	<u>445,922</u>	<u>1,093,321</u>	<u>1,924,156</u>
Total Cash and Cash Equivalents	<u><u>\$ 439,451</u></u>	<u><u>\$ 595,759</u></u>	<u><u>\$ 1,093,321</u></u>	<u><u>\$ 2,128,531</u></u>

continued

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

CITY OF PORTOLA

Statement of Cash Flows (continued)
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Water Service</u>	<u>Sewer Service</u>	<u>Solid Waste</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 265,452	\$ 82,774	\$ (38,572)	\$ 309,654
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	132,590	103,621	4,348	240,559
Changes in assets and liabilities:				
(Increase) decrease in:				
Utilities receivable	(12,599)	--	--	(12,599)
Accounts receivable	--	(19,140)	(2,457)	(21,597)
Customer deposits	1,750	--	--	1,750
Increase (decrease) in:				
Accounts payable	1,592	12,193	2,886	16,671
Accrued expenses	1,649	1,434	313	3,396
Liability for compensated absences	254	679	140	1,073
Closure/postclosure liability	--	--	235,579	235,579
Net Cash Provided (Used) by Operating Activities	<u>\$ 390,688</u>	<u>\$ 181,561</u>	<u>\$ 202,237</u>	<u>\$ 774,486</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, 2014

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 under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14.

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, 2014.

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.

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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

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

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

Fund Financial Statements (continued)

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 Fund* is used to account for activities relating to state funded projects.

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 closure and 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. 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 revenues, in accordance with GASB 34.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (continued)

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.

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Receivables

Receivables consist of property taxes, sales taxes and grants from other governmental agencies. No amount has been provided as an allowance for doubtful accounts because in the opinion of management all material amounts are fully collectible.

J. 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.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2014

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.

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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 3: CASH AND INVESTMENTS

At June 30, 2014, total City cash and investments at fair value were as follows:

Petty cash	\$ 335
Cash in bank	233,286
LAIF	3,759,765
Money market funds	<u>1,093,868</u>
	<u>\$ 5,087,254</u>

Total cash and investments at June 30, 2014 were presented on the City's financial statements as follows:

Cash and investments in pool	\$ 3,162,763
Imprest cash	335
Restricted Assets:	
Cash	830,288
Investments	<u>1,093,868</u>
	<u>\$ 5,087,254</u>

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, 2014, the City had the following investments:

	<u>Par</u>	<u>Cost</u>	<u>Fair Value</u>	<u>WAM (Years)</u>
Investments				
Money market funds	\$ 1,093,868	\$ 1,093,868	\$ 1,093,868	
Local Agency Investment Fund (LAIF)	<u>3,759,765</u>	<u>3,759,765</u>	<u>3,759,765</u>	
Total Investments	<u>\$ 4,853,633</u>	<u>\$ 4,853,633</u>	<u>\$ 4,853,633</u>	--

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

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

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 closure/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, 2014.

	<u>Moody's</u>	<u>% of Portfolio</u>
Money market funds	Unrated	22.53%
Local Agency Investment Fund (LAIF)	Unrated	<u>77.47%</u>
Total Pooled Investments		<u>100.00%</u>

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, 2014, the recorded amount of the City's deposits was \$233,286 and the bank balance was \$340,518. Of the bank statement balance \$250,000 was covered by federal depository insurance and \$90,518 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, 2014, the City's investment position in LAIF was \$3,759,765 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 \$64.8 billion. Of that amount, 1.86% was invested in structured notes and asset-backed securities with the remaining 98.14% invested in other non-derivative financial products.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

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, 2014, the outstanding balance was \$330,722. Additionally, the City has three loans receivable in the amount of \$48,016, which are comprised of loans to individuals for community development. The City also issued Community Development Block Grant (CDBG) loans in the amount of \$67,928. The final receivable is related to the Community Development Block Grant reimbursement request of \$225,135. The total loans and notes receivable at June 30, 2014 is \$671,801.

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Transfers & Adjustments	Balance June 30, 2014
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 746,277	\$ --	\$ --	\$ 746,277
Construction in progress	339,337	218,123	(259,103)	298,357
Total capital assets, not being depreciated	<u>1,085,614</u>	<u>218,123</u>	<u>(259,103)</u>	<u>1,044,634</u>
Capital assets, being depreciated:				
Infrastructure	10,603,983	--	--	10,603,983
Buildings and improvements	1,215,702	1,653	259,103	1,476,458
Machinery and equipment	1,254,736	12,224	--	1,266,960
Total capital assets, being depreciated	<u>13,074,421</u>	<u>13,877</u>	<u>259,103</u>	<u>13,347,401</u>
Less accumulated depreciation for:				
Infrastructure	(3,176,710)	(528,094)	--	(3,704,804)
Buildings and improvements	(612,980)	(78,651)	--	(691,631)
Machinery and equipment	(868,851)	(68,747)	--	(937,598)
Total accumulated depreciation	<u>(4,658,541)</u>	<u>(675,492)</u>	<u>--</u>	<u>(5,334,033)</u>
Total capital assets, being depreciated, net	<u>8,415,880</u>	<u>(661,615)</u>	<u>259,103</u>	<u>8,013,368</u>
Governmental activities capital assets, net	<u>\$ 9,501,494</u>	<u>\$ (443,492)</u>	<u>\$ --</u>	<u>\$ 9,058,002</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 5: **CAPITAL ASSETS** (continued)

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Transfers & Adjustments</u>	<u>Balance June 30, 2014</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 62,844	\$ --	\$ --	\$ 62,844
Total capital assets, not being depreciated	<u>62,844</u>	<u>--</u>	<u>--</u>	<u>62,844</u>
Capital assets, being depreciated:				
Buildings and improvements	8,388,763	29,812	--	8,418,575
Machinery and equipment	<u>1,060,003</u>	<u>31,101</u>	<u>--</u>	<u>1,091,104</u>
Total capital assets, being depreciated	<u>9,448,766</u>	<u>60,913</u>	<u>--</u>	<u>9,509,679</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,453,847)	(195,205)	--	(2,649,052)
Machinery and equipment	<u>(894,894)</u>	<u>(45,354)</u>	<u>--</u>	<u>(940,248)</u>
Total accumulated depreciation	<u>(3,348,741)</u>	<u>(240,559)</u>	<u>--</u>	<u>(3,589,300)</u>
Total capital assets, being depreciated, net	<u>6,100,025</u>	<u>(179,646)</u>	<u>--</u>	<u>5,920,379</u>
Business-type activities, net	<u>\$ 6,162,869</u>	<u>\$ (179,646)</u>	<u>\$ --</u>	<u>\$ 5,983,223</u>

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

Governmental Activities	
General government	\$ 21,027
Parks and recreation	51,811
Public safety	1,583
Public works	107,211
Snow removal	8,027
Streets and roads	485,833
Total Depreciation Expense - Governmental Activities	<u>\$ 675,492</u>
Business-Type Activities	
Water Fund	\$ 132,590
Sewer Fund	103,621
Solid Waste Fund	4,348
Total Depreciation Expense - Business-Type Activities	<u>\$ 240,559</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 6: LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2014 consisted of the following:

	<u>Date of Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2014</u>
<u>Business-Type Activities</u>					
1997 Special Assessment Water Improvement Note Payable <i>(to finance improvements to the City's water system)</i>	5/1/2037	5.00%	\$5,000 - \$25,000	\$ 1,173,000	\$ 926,000
1997 Emergency Dought Relief Note	11/1/2017	5.00%	\$3,000 - \$7,000	325,000	70,000
1978 Water System Note <i>(to finance improvement to the City's water system)</i>	11/1/2017	5.00%	\$500 - \$3,500	60,000	12,500
1998 Sewer System Notes <i>(to finance improvements to the City's sewer system)</i>	6/30/2018	1.80%	\$20,071 - \$28,185	478,224	109,781
2005 Landfill Closure Note Payable	7/1/2015	0.00%	\$16,800	<u>168,000</u>	<u>16,800</u>
Total Business-Type Activities				<u>\$ 2,204,224</u>	<u>\$ 1,135,081</u>

The following is a summary of long-term liabilities transactions for the year ended June 30, 2014:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 34,626	\$ 15,876	\$ 16,989	\$ 33,513	\$ 15,875
Total	<u>\$ 34,626</u>	<u>\$ 15,876</u>	<u>\$ 16,989</u>	<u>\$ 33,513</u>	<u>\$ 15,875</u>
Business-type Activities:					
Notes payable	\$ 1,217,122	\$ --	\$ 82,041	\$ 1,135,081	\$ 84,514
Closure and postclosure costs	2,224,055	235,579	--	2,459,634	--
Compensated absences	<u>25,153</u>	<u>12,423</u>	<u>11,350</u>	<u>26,226</u>	<u>12,423</u>
Total	<u>\$ 3,466,330</u>	<u>\$ 248,002</u>	<u>\$ 93,391</u>	<u>\$ 3,620,941</u>	<u>\$ 96,937</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

As of June 30, 2014, annual debt service requirements of business-type activities to maturity are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 84,514	\$ 51,929
2016	71,196	49,373
2017	73,686	46,657
2018	76,685	43,821
2019	27,000	41,450
2020-2024	159,000	185,350
2025-2029	201,000	141,550
2030-2034	257,000	85,950
2035-2037	185,000	18,750
Total	<u>\$ 1,135,081</u>	<u>\$ 664,830</u>

NOTE 7: INTERFUND TRANSACTIONS AND BALANCES

The composition of interfund balances as of June 30, 2014 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	\$ 91,691	To cover cash deficit expected to be recovered through future revenues.
		<u>\$ 91,691</u>	

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Solid Waste	\$ 278,111	To cover cash deficit expected to be recovered through future revenues.
		<u>\$ 278,111</u>	

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 7: INTERFUND TRANSACTIONS AND BALANCES (CONTINUED)

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, 2014:

<u>Transfer From</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 9,645
	Gas Tax Fund	<u>42,324</u>
		<u>\$ 51,969</u>

NOTE 8: EXPENDITURES/EXPENSES IN EXCESS OF BUDGET AND DEFICIT FUND BALANCE/NET POSITION

Expenditures and operating/nonoperating expenses were in excess of budget in the following funds:

	<u>Final Budget</u>	<u>Expenditures/ Expenses</u>	<u>Variance to Final Budget</u>
<u>Major Business-Type Funds:</u>			
Solid Waste	\$ 127,645	\$ 375,171	\$ (247,526)
Water Service	648,529	623,606	24,923

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

Enterprise Funds:	
Solid Waste Fund	\$ (1,563,009)
Special Revenue Funds:	
STIP	(25,370)

The Solid Waste Fund has incurred a deficit net position balance as a result of recognition of the estimated liability for the landfill closure and 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 \$25,370, which is expected to be eliminated by future revenues and general fund transfers, if needed.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 9: DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City of Portola contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Copies of PERS annual financial report may be obtained from their Executive Office – 400 Q Street, Sacramento, California 95814.

B. Funding Policy

The City makes the contributions required of City employees on their behalf and for their account. For new employees who are brought into PERS after 1/1/13, the Public Employees’ Pension Reform Act of 2013 (PEPRA) requires new members to make their full contribution. The rates are set by statute and therefore generally remain unchanged from year to year. The present actuarially determined rates of annual covered payroll are as follows:

Member Rates as a Category	Percentage of Wages
Local miscellaneous members	7%
Local safety members with benefits under Article:	
21362	9%
21363	9%
21369	7%
21366	rate based on entry age

The contribution requirements of the plan members are established by State statutes and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For the fiscal year 2013/2014, the City of Portola’s annual pension cost was \$35,525 and the City actually contributed \$35,525. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20%, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%.

The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period (smoothed market value). PERS excess assets are being amortized as a level percentage of projected payroll on a closed basis.

The funded status of the City’s plan, including the actuarial value of the plan’s assets and the actuarial accrued liability, is no longer available. Information is available on a pooled-basis only and can be obtained from CalPERS, 400 Q Street, Sacramento, California 95814.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 9: DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Funding Policy (continued)

Annual Pension Cost (continued)

Three-Year Trend Information					
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation		
6/30/12	\$ 35,667	100%	\$	--	
6/30/13	33,405	100%		--	
6/30/14	35,525	100%		--	

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, 2014, the City's estimated liability for postclosure maintenance costs for the landfill was \$2,459,634.

The estimated total current cost of the landfill closure and postclosure maintenance costs is based on the amounts that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of the balance sheet date. However, the costs for landfill closure and postclosure maintenance costs are based on yearly estimates, reviewed by the California Integrated Waste Management Board, as prepared by TGV Solid Waste, Inc.

These cost estimates are subject to change based on such factors as inflation or deflation, changes in technology, or changes in federal or state landfill laws and regulations.

The City is required by state and federal laws and regulations to make annual contributions to a trust in order to finance closure and postclosure care. Investments of \$1,093,321 are held for these purposes. These are reported as restricted assets on the balance sheet. The government expects future inflation costs to be paid from interest earnings on these annual contributions.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2014

NOTE 11: LANDFILL CLOSURE AND POSTCLOSURE CARE COST (CONTINUED)

However, if interest earnings are inadequate or additional postclosure care requirements are determined (because of changes in technology or applicable laws and regulations, for example) these costs may need to be covered by charges to future landfill users or from future tax revenue.

On November 1, 2002, the City of Portola stopped accepting waste at its landfill facility. The City has negotiated with a contractor for the provision of these services. The City has approved an increase in surcharges in order to generate revenues needed to fund future landfill closure and postclosure costs.

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.

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: CONTINGENT LIABILITIES

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, 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, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF PORTOLA

Required Supplementary Information
For the Year Ended June 30, 2014

SCHEDULE OF FUNDING PROGRESS

Information on the individual plans with less than 100 employees is no longer available. Information is available on a pooled-basis only and can be obtained from CalPERS, P.O. Box 942709, Sacramento, CA 94229-2709.

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 485,125	\$ 485,125	\$ 503,126	\$ 18,001
Licenses and permits	48,800	48,800	57,394	8,594
Fines, forfeitures and penalties	1,500	1,500	2,799	1,299
Use of money and property	12,877	12,877	9,668	(3,209)
Intergovernmental	263,000	568,596	570,569	1,973
Charges for services	40,334	40,334	48,384	8,050
Other revenues	2,000	49,911	50,662	751
Total Revenues	<u>853,636</u>	<u>1,207,143</u>	<u>1,242,602</u>	<u>35,459</u>
Expenditures				
Current:				
General government	263,277	392,199	359,549	32,650
Planning and community development	101,916	625,342	607,509	17,833
Public safety	201,035	204,382	195,571	8,811
Public works	64,549	69,914	71,478	(1,564)
Parks and recreation	104,356	104,356	105,681	(1,325)
Total Expenditures	<u>735,133</u>	<u>1,396,193</u>	<u>1,339,788</u>	<u>56,405</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>118,503</u>	<u>(189,050)</u>	<u>(97,186)</u>	<u>91,864</u>
Other Financing Sources (Uses)				
Transfers out	(169,615)	(51,969)	(51,969)	--
Total Other Financing Sources (Uses)	<u>(169,615)</u>	<u>(51,969)</u>	<u>(51,969)</u>	<u>--</u>
Net Change in Fund Balances	(51,112)	(241,019)	(149,155)	91,864
Fund Balances, Beginning of Year	<u>3,476,993</u>	<u>3,476,993</u>	<u>3,476,993</u>	<u>--</u>
Fund Balances, End of Year	<u>\$ 3,425,881</u>	<u>\$ 3,235,974</u>	<u>\$ 3,327,838</u>	<u>\$ 91,864</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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ --	\$ 380,000	\$ 380,045	\$ 45
Total Revenues	<u> --</u>	<u> 380,000</u>	<u> 380,045</u>	<u> 45</u>
Expenditures				
Current:				
Streets and roads	--	144,000	144,232	(232)
Total Expenditures	<u> --</u>	<u> 144,000</u>	<u> 144,232</u>	<u> (232)</u>
Net Change in Fund Balances	--	236,000	235,813	277
Fund Balances, Beginning of Year	<u>(261,183)</u>	<u>(261,183)</u>	<u>(261,183)</u>	<u> --</u>
Fund Balances, End of Year	<u>\$ (261,183)</u>	<u>\$ (25,183)</u>	<u>\$ (25,370)</u>	<u>\$ 277</u>

CITY OF PORTOLA

Note to Required Supplementary Information
For the Year Ended June 30, 2014

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

SUPPLEMENTARY INFORMATION

THIS PAGE INTENTIONALLY LEFT BLANK

NONMAJOR SPECIAL REVENUE FUNDS

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF PORTOLA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2014

	<u>Snow Removal</u>	<u>Gas Tax Funds</u>	<u>Community Development Block Grant</u>	<u>Total</u>
Assets				
Cash and investments	\$ --	\$ 633	\$ 401,782	\$ 402,415
Account receivable	6,820		--	6,820
Interest receivable	--		200	200
Notes receivable	--		115,944	115,944
Due from other governmental agencies	--	2,976	--	2,976
Total Assets	<u>\$ 6,820</u>	<u>\$ 3,609</u>	<u>\$ 517,926</u>	<u>\$ 528,355</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	1,929	\$ 3,609	310	5,848
Due to other funds	4,891	--		4,891
Total Liabilities	<u>6,820</u>	<u>3,609</u>	<u>310</u>	<u>10,739</u>
Fund Balance:				
Restricted	--	--	118,734	118,734
Assigned	--	--	398,882	398,882
Total Fund Balance	<u>--</u>	<u>--</u>	<u>517,616</u>	<u>517,616</u>
Total Liabilities and Fund Balance	<u>\$ 6,820</u>	<u>\$ 3,609</u>	<u>\$ 517,926</u>	<u>\$ 528,355</u>

CITY OF PORTOLA

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2014

	<u>Snow Removal</u>	<u>Gas Tax Funds</u>	<u>Community Development Block Grant</u>	<u>Total</u>
Revenues				
Use of money and property	\$ --	\$ --	\$ 918	\$ 918
Intergovernmental	76,464	174,868	--	251,332
Total Revenues	<u>76,464</u>	<u>174,868</u>	<u>918</u>	<u>252,250</u>
Expenditures				
Current:				
Public safety	--	24,702	--	24,702
Streets and roads	86,109	96,919	--	183,028
Planning and community development	--	--	24,225	24,225
Total Expenditures	<u>86,109</u>	<u>121,621</u>	<u>24,225</u>	<u>231,955</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,645)</u>	<u>53,247</u>	<u>(23,307)</u>	<u>20,295</u>
Other Financing Sources (Uses)				
Transfers in	9,645	42,324	--	51,969
Total Other Financing Sources (Uses)	<u>9,645</u>	<u>42,324</u>	<u>--</u>	<u>51,969</u>
Net Change in Fund Balances	--	95,571	(23,307)	72,264
Fund Balances, Beginning of Year	<u>--</u>	<u>(95,571)</u>	<u>540,923</u>	<u>445,352</u>
Fund Balances, End of Year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 517,616</u>	<u>\$ 517,616</u>

OTHER REPORTS

THIS PAGE INTENTIONALLY LEFT BLANK



**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
of the City of Portola, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Portola (City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 11, 2014.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

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.

A handwritten signature in cursive script that reads "Gallina LLP". The signature is written in black ink and is positioned above the typed name and date.

Roseville, California
December 11, 2014