

CITY OF PORTOLA

AUDIT REPORT

JUNE 30, 2010

CITY OF PORTOLA

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Portola
Portola, California

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010, 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, 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 the internal control over financial reporting or on compliance.

City Council
City of Portola
Portola, California

The Management's Discussion and Analysis (MD & A) on pages 3 through 11 and the required supplementary information other than the MD & A on pages 43 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Portola's financial statements. The accompanying information identified in the table of contents as combining and individual nonmajor fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gallina LLP

Roseville, California
December 2, 2010

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

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

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, 2010. It should be read in conjunction with the City's basic financial statements following this section.

I. FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$17,350,658 (net assets). Of this amount, \$4,528,089 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$75,492 during the year.
- As of June 30, 2010, the City's governmental funds had combined ending fund balances of \$4,445,947. Of this amount \$3,225,698 is unreserved and undesignated, and \$838,886 is reserved and unavailable for general-purpose spending.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,317,851 or 187% of total general fund expenditures.

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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported as soon as earned and expenses are reported as soon as incurred even though the related cash flows may not have take place until future fiscal periods (e.g., earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

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 11 individual governmental funds. On the financial statements for governmental funds, information is presented separately for the General Fund. Data from nonmajor 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.

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

III. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Condensed Statement of Net Assets
June 30, 2010 and 2009**

	Governmental Activities		Business-Type Activities		Total		Total	
	2010	2009	2010	2009	2010	2009	Dollar Change	Percent Change
Current and other assets	\$ 5,892,919	\$ 6,285,122	\$ 2,066,875	\$ 2,086,607	\$ 7,959,794	\$ 8,371,729	\$ (411,935)	-5%
Capital assets	7,720,774	7,375,005	5,511,823	5,494,659	13,232,597	12,869,664	362,933	3%
Total Assets	<u>13,613,693</u>	<u>13,660,127</u>	<u>7,578,698</u>	<u>7,581,266</u>	<u>21,192,391</u>	<u>21,241,393</u>	<u>(49,002)</u>	<u>0%</u>
Current and other liabilities	107,329	196,408	75,451	163,637	182,780	360,045	(177,265)	-49%
Long term liabilities	77,809	60,149	3,581,144	3,546,033	3,658,953	3,606,182	52,771	1%
Total Liabilities	<u>185,138</u>	<u>256,557</u>	<u>3,656,595</u>	<u>3,709,670</u>	<u>3,841,733</u>	<u>3,966,227</u>	<u>(124,494)</u>	<u>-3%</u>
Invested in capital assets, net	7,696,127	7,327,074	4,146,833	4,072,738	11,842,960	11,399,812	443,148	4%
Restricted	161,812	142,198	817,797	891,069	979,609	1,033,267	(53,658)	-5%
Unrestricted	5,570,616	5,934,298	(1,042,527)	(1,092,211)	4,528,089	4,842,087	(313,998)	-6%
Total Net Assets	<u>\$ 13,428,555</u>	<u>\$ 13,403,570</u>	<u>\$ 3,922,103</u>	<u>\$ 3,871,596</u>	<u>\$ 17,350,658</u>	<u>\$ 17,275,166</u>	<u>\$ 75,492</u>	<u>0%</u>

Investments in capital assets net of related debt 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 assets represent 9% of the total net assets and are resources subject to external restrictions on how they may be used.

Unrestricted net assets represent 22.2% of the total net assets and may be used to meet the City's ongoing obligations to citizens and creditors.

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

Statement of Activities For the Years Ended June 30, 2010 and 2009

	Governmental Activities		Business-Type Activities		Total		Total	
	2010	2009	2010	2009	2010	2009	Dollar Change	Percent Change
Program revenues:								
Charges for services	\$ 139,927	\$ 183,495	\$ 1,302,313	\$ 1,415,271	\$ 1,442,240	\$ 1,598,766	\$ (156,526)	-10%
Operating grants & contributions	453,730	475,031	7,686	5,000	461,416	480,031	(18,615)	-4%
Capital grants & contributions	649,170	556,031	--	--	649,170	556,031	93,139	100%
General revenues:								
Property taxes	280,123	293,819	--	--	280,123	293,819	(13,696)	0%
Other taxes	256,249	262,390	--	--	256,249	262,390	(6,141)	-2%
Other revenue	30,905	105,434	129,340	104,197	160,245	209,631	(49,386)	-24%
Total Revenues	1,810,104	1,876,200	1,439,339	1,524,468	3,249,443	3,400,668	(151,225)	-4%
Expenses:								
General government	333,491	350,028	--	--	333,491	350,028	(16,537)	0%
Planning and community development	332,571	161,072	--	--	332,571	161,072	171,499	106%
Public safety	378,643	511,480	--	--	378,643	511,480	(132,837)	-26%
Streets and roads	479,161	561,226	--	--	479,161	561,226	(82,065)	-15%
Public works	105,349	86,018	--	--	105,349	86,018	19,331	22%
Parks and recreation	153,099	51,687	--	--	153,099	51,687	101,412	196%
Debt service:								
Interest	2,805	4,091	--	--	2,805	4,091	(1,286)	0%
Water Service	--	--	671,153	642,195	671,153	642,195	28,958	0%
Sewer Service	--	--	554,681	490,189	554,681	490,189	64,492	13%
Solid Waste	--	--	162,998	116,027	162,998	116,027	46,971	40%
Total Expenses	1,785,119	1,725,602	1,388,832	1,248,411	3,173,951	2,974,013	199,938	7%
Change in net assets	24,985	150,598	50,507	276,057	75,492	426,655	(351,163)	-82%
Net assets, beginning	13,403,570	13,252,972	3,871,596	3,595,539	17,275,166	16,848,511	426,655	3%
Net assets, ending	<u>\$ 13,428,555</u>	<u>\$ 13,403,570</u>	<u>\$ 3,922,103</u>	<u>\$ 3,871,596</u>	<u>\$ 17,350,658</u>	<u>\$ 17,275,166</u>	<u>\$ 75,492</u>	<u>0%</u>

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

- Governmental activities reported a \$24,985 increase in net assets, and business-type activities reported an increase of \$50,507, for a net increase of \$75,492.

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

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, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At June 30, 2010, the City's governmental funds reported combined ending fund balances of \$4,445,947. Approximately 81% of this total amount, \$3,607,061 constitutes unreserved fund balance, which may be used to meet the City's ongoing general obligation to citizens and creditors. The remainder of fund balance is reserved to indicate that it is not available for general obligations because it has been committed in the form of inventories, debt service reserves or has statutory restrictions.

The General Fund is the main operating fund of the City. At June 30, 2010, unreserved fund balance of the general fund was \$3,317,851 while total fund balance was \$3,897,003. As measures of the general fund's liquidity, it is useful to note that unreserved fund balance represents 187% of total fund expenditures. Total fund balance represents approximately the same percentage of total expenditures.

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						
<u>Revenue Sources</u>	FY 2010		FY 2009		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Taxes	\$ 492,482	28%	\$ 556,209	30%	\$ (63,727)	-11%
Licenses and permits	67,153	4%	85,322	5%	(18,169)	-21%
Fines & forfeitures	3,648	0%	2,918	0%	730	25%
Use of money & property	29,104	2%	93,954	5%	(64,850)	-69%
Intergovernmental	1,074,607	62%	1,031,062	55%	43,545	4%
Charges for Services	69,126	4%	95,255	5%	(26,129)	-27%
Other	1,801	0%	11,480	1%	(9,679)	-84%
Total	\$ 1,737,921	100%	\$ 1,876,200	100%	\$ (138,279)	-7%

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

Significant changes for major revenue sources are explained below.

- Taxes – Both Property tax and Sales tax decreased in 2010.
- Licenses and Permits – Motor Vehicle fees decreased and the Cable TV Franchise fee decreased by over 8,000
- Fines and Forfeitures – Due to increased enforcement activities fines and forfeitures increased
- Use of Money & Property – Decrease in interest income due to the decrease in interest rates
- Charges for Services decreased as 29,688 less in Traffic Impact Fees were collected
- Decrease in Other as 2009 had included money transferred from Plumas County to the City for use in the Woodstove change out program now administered by the City

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

Expenditures by Function Governmental Funds

	FY 2010		FY 2009		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General government	\$ 324,240	15%	\$ 340,859	16%	\$ (16,619)	-5%
Planning and community development	332,571	15%	169,599	8%	162,972	96%
Public safety	327,324	15%	627,002	29%	(299,678)	-48%
Streets and roads	319,459	15%	745,744	34%	(426,285)	-57%
Public works	103,473	5%	78,422	4%	25,051	32%
Parks and recreation	722,493	34%	193,761	9%	528,732	273%
Debt Service:						
Principal expense	23,284	1%	21,998	1%	1,286	6%
Interest and fiscal charges	2,805	0%	4,091	0%	(1,286)	-31%
Total Expenditures	<u>\$ 2,155,649</u>	<u>100%</u>	<u>\$ 2,181,476</u>	<u>100%</u>	<u>\$ (25,827)</u>	<u>-1%</u>

Significant changes for major function are explained below:

- Planning and community development – Increase due to a one year increase in LAFCo “contributions” and the use of money set aside from Woodbridge for Gulling Street Improvements
- Public Safety – Decreased as a Fire truck had been purchased in 2009. Additional decrease due to the elimination of a ½ time paid Fire Chief position
- Streets and Roads – Decrease as Prop 1B money of 400,000 had been expended in 2009
- Parks and Recreation – Increase due to the Riverwalk pathway and Gulling Street park TEA project and the recognition of the value of the Musser Property

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

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

This budget document represents a financial plan for the City with four central goals in mind: (1) sustains the level and quality of basic municipal services currently being provided our residents (2) it maintains the City's infrastructure while implementing scheduled and unscheduled improvements determined at the time of the budget process; (3) it provides 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) development of a plan for improved municipal services with a vision that will lead our community toward impending growth and tourism. This year's budget, while keeping all four goals in mind, addressed only goal number (1) sustaining the level and quality of services currently being provided to our residents.

Differences between the original budget and the final amended budget are mainly due to the revenue and expenditures from Capital projects. These projects are mainly "reimbursed" and in many cases are not reflected in the original budget figures.

For the fiscal year 2009/2010, General Fund revenues were less than budget by \$ 77,772 and General Fund expenditures were \$9,896 less than budgeted.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The additions to capital assets for the Governmental Activities totaled \$345,769, net of depreciation for an ending balance of \$7,720,774. Retirements of \$5,953 were fully depreciated; therefore it did not affect net balance of capital assets.

Business-type capital assets for the fiscal year ending June 30, 2010, were \$5,511,823, net of depreciation. This is an increase in Capital Assets of \$17,164 which is a combination of asset additions of \$212,469, Construction in Progress of \$16,751 and Depreciation of \$212,056.

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, 2010, the City had a long-term debt outstanding of \$1,473,637. This is a decrease over June 30, 2009 of \$97,015. Of the 2010 fiscal year end balance, \$24,647 constituted General Government long-term debt and \$1,448,990 was attributable to Business-type activities.

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

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 is responsive to the current National, State, and local economic conditions and is sufficient to serve as the City's 2010-2011 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.

In March of 2010 the City staff, general public and City Council participated in a FY 2010-2011 pre-budget preparation Goal Setting Workshop. As part of the workshop the City Council directed the City staff to prepare cost estimates for continuing to improve the overall appearance and aesthetics of the City, to prepare the City for eventual conversion to "green" building and maintenance practices and solar energy, and to meet with employees and propose a salary and benefit update package that was reasonable and within the City's resources. In order for the City Council to be able to make informed priority decisions a report on the Fund Balance-Reserves of each of the city's budget funds was evaluated and prepared for City Council assessment.

The Budget utilizes a projected \$25,000 annual surplus in the General Fund and an additional \$23,337 of the General Fund's contingency Fund Balance leaving \$3,258,000 in current cash/reserves and \$2,045,000 in current receivables enabling them to fund some of the City Council's goal priorities for 2010-2011. The 2010-2011 General Fund Budget is \$984,000 as compared to \$1.06 million in fiscal year 2009-2010; a **decrease of 8%**. A 20% decrease in spending over the periods 2008-2009 and 2009-2010.

The City's current financial condition remains healthy with end-of year projected cash estimates of \$3.2 million in General Fund – Fund Balance and \$4.4 million in end-of-year Fund Balance throughout all Funds. Because the City's current population remains small our portions of Gas Taxes, Property Taxes, Sales Taxes and other shared revenue have been, as in the past, further supported from investment account interest revenue incurred from our healthy Fund Balance. Due to the current National economy and recession we have experienced a decrease in interest rates; therefore this revenue stream has been significantly reduced. 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 Service Officer performing code enforcement, parking enforcement, and service oriented duties.

With regard to the City Enterprise Funds the effects and impacts of changing state and federal government regulation has caused their Fund Balance/Reserves to decline and the Water, Sewer and Solid Waste Funds are approaching deficits which will require further monitoring throughout the year and possibly a very visible public awareness collaboration and plan of action for our public to understand and accept the need for additional fee based revenue increases in the future.

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

For these reasons the City Council has instructed the staff to include a 5% rate increase in the Budget for water, sewer and solid waste and has budgeted funds for specialized rate studies that will evaluate and qualify our costs of service delivery and validate the rates we charge our utility customers.

This year's budget process was difficult because of the continuing issues involving the National and local economies and the State's role in attempting to correct California's current and predicted future State Budget deficits. The State Legislature weekly debates borrowing from cities and counties, Program eliminations, freezes in grant and voter approved Bond initiative payments. It remains difficult for the City to realistically predict annual revenues for the budget when the State won't resolve its budget issues until well into the year. With these complexities this budget addressed the City's current level of services, left 1.5 FTE positions vacant, and with City staff's support, included a 3% across-the-board salary increase for all staff levels while keeping in place a moratorium on employee annual 5 % performance based step-increases.

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

VIII. REQUESTS FOR INFORMATION

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

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

CITY OF PORTOLA

Statement of Net Assets

June 30, 2010

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Cash and investments	\$ 3,283,902	\$ 41,938	\$ 3,325,840
Restricted Assets:			
Restricted cash	--	817,797	817,797
Restricted investments	--	603,158	603,158
Imprest cash	335	--	335
Accounts receivable	73,662	145,952	219,614
Interest receivable	5,467	663	6,130
Due from other governments	270,501	315,419	585,920
Prepaid expenses	--	1,010,000	1,010,000
Loans and notes receivable	1,391,000	--	1,391,000
Internal balances	868,052	(868,052)	--
Capital Assets:			
Nondepreciable	1,640,024	79,595	1,719,619
Depreciable, net	6,080,750	5,432,228	11,512,978
Total Assets	\$ 13,613,693	\$ 7,578,698	\$ 21,192,391
 <u>LIABILITIES</u>			
Accounts payable	\$ 41,664	\$ 15,780	\$ 57,444
Accrued salaries and benefits payable	15,773	14,390	30,163
Deposits	32,432	18,574	51,006
Deferred revenue	17,460	--	17,460
Accrued interest	--	26,707	26,707
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	19,252	16,768	36,020
Capital leases	24,647	--	24,647
Notes payable	--	75,171	75,171
Portion due or payable after one year:			
Compensated absences	33,910	33,384	67,294
Notes payable	--	1,373,819	1,373,819
Liability for landfill closure and postclosure	--	2,082,002	2,082,002
Total Liabilities	185,138	3,656,595	3,841,733
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	7,696,127	4,146,833	11,842,960
Restricted:			
Streets and roads	43,078	--	43,078
Planning and community development	118,734	--	118,734
Capital improvements	--	727,560	727,560
Debt service	--	90,237	90,237
Unrestricted	5,570,616	(1,042,527)	4,528,089
Total Net Assets	13,428,555	3,922,103	17,350,658
 Total Liabilities and Net Assets	\$ 13,613,693	\$ 7,578,698	\$ 21,192,391

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

CITY OF PORTOLA

Statement of Activities
For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 333,491	\$ 38,996	\$ 196,308	\$ --
Planning and community development	332,571	2,794	7,808	--
Public safety	378,643	68,944	113,922	--
Streets and roads	479,161	--	(17,460)	50,918
Public works	105,349	--	--	--
Parks and recreation	153,099	29,193	153,152	598,252
Debt Service:				
Interest	2,805	--	--	--
Total Governmental Activities	<u>1,785,119</u>	<u>139,927</u>	<u>453,730</u>	<u>649,170</u>
Business-Type Activities:				
Water Service	671,153	512,811	--	--
Sewer Service	554,681	465,867	--	--
Solid Waste	162,998	323,635	7,686	--
Total Business-Type Activities:	<u>1,388,832</u>	<u>1,302,313</u>	<u>7,686</u>	<u>--</u>
 Total City of Portola	 <u>\$ 3,173,951</u>	 <u>\$ 1,442,240</u>	 <u>\$ 461,416</u>	 <u>\$ 649,170</u>

General Revenues:

Taxes:

 Property taxes

 Sales and use taxes

 Other

Unrestricted interest and investment earnings

Miscellaneous

 Total General Revenues

Change in Net Assets

Net assets - July 1

Net assets - June 30

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (98,187)	\$ --	\$ (98,187)
(321,969)	--	(321,969)
(195,777)	--	(195,777)
(445,703)	--	(445,703)
(105,349)	--	(105,349)
627,498	--	627,498
(2,805)	--	(2,805)
(542,292)	--	(542,292)
--	(158,342)	(158,342)
--	(88,814)	(88,814)
--	168,323	168,323
--	(78,833)	(78,833)
(542,292)	(78,833)	(621,125)
280,123	--	280,123
197,237	--	197,237
59,012	--	59,012
29,104	7,423	36,527
1,801	121,917	123,718
567,277	129,340	696,617
24,985	50,507	75,492
13,403,570	3,871,596	17,275,166
\$ 13,428,555	\$ 3,922,103	\$ 17,350,658

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

CITY OF PORTOLA

Balance Sheet
Governmental Funds
June 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 2,767,259	\$ 516,643	\$ 3,283,902
Imprest cash	335	--	335
Notes receivable	1,250,000	141,000	1,391,000
Accounts receivable	27,909	45,753	73,662
Interest receivable	4,785	682	5,467
Due from other funds	460,177	--	460,177
Advances to other funds	512,019	--	512,019
Due from other governmental agencies	265,500	5,001	270,501
Total Assets	<u>\$ 5,287,984</u>	<u>\$ 709,079</u>	<u>\$ 5,997,063</u>
 <u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 34,916	\$ 6,748	\$ 41,664
Accrued salaries and benefits payable	12,283	3,490	15,773
Deposits from others	32,432	--	32,432
Deferred revenue	1,311,350	45,753	1,357,103
Due to other funds	--	104,144	104,144
Total Liabilities	<u>1,390,981</u>	<u>160,135</u>	<u>1,551,116</u>
 Fund Balance:			
Reserve for imprest cash	335	--	335
Reserve for programs	--	118,734	118,734
Reserve for advances	512,019	--	512,019
Reserve for notes receivable	--	141,000	141,000
Reserve for traffic improvements	66,798	--	66,798
Unreserved:			
Designated	381,363	--	381,363
Undesignated	2,936,488	289,210	3,225,698
Total Fund Balance	<u>3,897,003</u>	<u>548,944</u>	<u>4,445,947</u>
Total Liabilities and Fund Balance	<u>\$ 5,287,984</u>	<u>\$ 709,079</u>	<u>\$ 5,997,063</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 Assets - Governmental Activities
June 30, 2010

Fund Balance - total governmental funds (from previous page)	\$ 4,445,947
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.	7,720,774
Deferred revenues and long-term assets represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	1,339,643
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds.	
Capital leases	(24,647)
Compensated absences	<u>(53,162)</u>
Net assets of governmental activities	<u>\$ 13,428,555</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 Year Ended June 30, 2010

	General	Other Governmental Funds	Total
Revenues:			
Taxes	\$ 492,482	\$ --	\$ 492,482
Licenses and permits	67,153	--	67,153
Fines, forfeitures and penalties	3,648	--	3,648
Use of money and property	23,388	5,716	29,104
Intergovernmental	908,482	166,125	1,074,607
Charges for services	69,126	--	69,126
Other revenues	1,801	--	1,801
Total Revenues	1,566,080	171,841	1,737,921
Expenditures:			
Current:			
General government	324,240	--	324,240
Planning and community development	291,310	41,261	332,571
Public safety	303,586	23,738	327,324
Streets and roads	--	319,459	319,459
Public works	103,473	--	103,473
Parks and recreation	722,493	--	722,493
Debt Service:			
Principal expense	23,284	--	23,284
Interest and fiscal charges	2,805	--	2,805
Total Expenditures	1,771,191	384,458	2,155,649
Excess (Deficiency) of Revenues Over (Under) Expenditures	(205,111)	(212,617)	(417,728)
Other Financing Sources (Uses):			
Transfers in	--	147,641	147,641
Transfers out	(147,641)	--	(147,641)
Total Other Financing Sources (Uses)	(147,641)	147,641	--
Net Change in Fund Balances	(352,752)	(64,976)	(417,728)
Fund Balances, Beginning of Year	4,249,755	613,920	4,863,675
Fund Balances, End of Year	\$ 3,897,003	\$ 548,944	\$ 4,445,947

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 Year Ended June 30, 2010

Net change to fund balance - total governmental funds \$ (417,728)

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	\$ 816,253	
Less: current year depreciation	<u>(470,484)</u>	
		345,769

Revenues earned by the City but not received within the availability period are deferred on the fund statements but recognized as revenue on the statement of activities		72,183
--	--	--------

Repayment of debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
statement of net assets.

Principal repayments: Capital leases		23,284
---	--	--------

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.

Change in compensated absences		<u>1,477</u>
--------------------------------	--	--------------

Change in net assets of governmental activities		<u><u>\$ 24,985</u></u>
---	--	-------------------------

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

CITY OF PORTOLA

Statement of Fund Net Assets
Proprietary Funds
June 30, 2010

<u>Assets</u>	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Water Service</u>	<u>Sewer Service</u>	<u>Solid Waste</u>	
Current Assets:				
Cash and investments	\$ --	\$ 41,938	\$ --	\$ 41,938
Interest receivable	33	630	--	663
Account receivable	62,232	49,637	34,083	145,952
Due from other governmental agencies	310,419	--	5,000	315,419
Prepaid expenses	1,010,000	--	--	1,010,000
Restricted assets:				
Restricted cash	380,898	436,899	--	817,797
Restricted investments	--	--	603,158	603,158
Total Current Assets	<u>1,763,582</u>	<u>529,104</u>	<u>642,241</u>	<u>2,934,927</u>
Noncurrent Assets:				
Capital Assets:				
Non depreciable	--	48,173	31,422	79,595
Depreciable, net	2,536,821	2,849,810	45,597	5,432,228
Total Noncurrent Assets	<u>2,536,821</u>	<u>2,897,983</u>	<u>77,019</u>	<u>5,511,823</u>
Total Assets	<u>\$ 4,300,403</u>	<u>\$ 3,427,087</u>	<u>\$ 719,260</u>	<u>\$ 8,446,750</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	\$ 5,203	\$ 7,725	\$ 2,852	\$ 15,780
Accrued salaries and benefits payable	7,550	5,987	853	14,390
Due to other funds	356,033	--	--	356,033
Deposits	18,574	--	--	18,574
Accrued interest	20,009	6,698	--	26,707
Liability for compensated absences	8,345	7,480	943	16,768
Notes payable - current portion	33,500	24,871	16,800	75,171
Total Current Liabilities	<u>449,214</u>	<u>52,761</u>	<u>21,448</u>	<u>523,423</u>
Noncurrent Liabilities				
Liability for compensated absences	16,614	14,893	1,877	33,384
Advances from other funds	--	--	512,019	512,019
Landfill closure and postclosure	--	--	2,082,002	2,082,002
Notes payable	1,119,500	187,119	67,200	1,373,819
Total Noncurrent Liabilities	<u>1,136,114</u>	<u>202,012</u>	<u>2,663,098</u>	<u>4,001,224</u>
Total Liabilities	<u>1,585,328</u>	<u>254,773</u>	<u>2,684,546</u>	<u>4,524,647</u>
Net Assets:				
Invested in capital assets, net of related debt	1,383,821	2,685,993	77,019	4,146,833
Restricted:				
Debt service	90,237	--	--	90,237
Facility fees	290,661	247,137	--	537,798
Capital projects	--	189,762	--	189,762
Unrestricted:				
Unrestricted	950,356	49,422	(2,042,305)	(1,042,527)
Total Net Assets	<u>2,715,075</u>	<u>3,172,314</u>	<u>(1,965,286)</u>	<u>3,922,103</u>
Total Liabilities and Net Assets	<u>\$ 4,300,403</u>	<u>\$ 3,427,087</u>	<u>\$ 719,260</u>	<u>\$ 8,446,750</u>

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

CITY OF PORTOLA

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Operating Revenues:				
Fines	\$ 11,599	\$ 6,949	\$ 5,875	\$ 24,423
Charges for services	501,212	458,918	317,760	1,277,890
Total Operating Revenues	<u>512,811</u>	<u>465,867</u>	<u>323,635</u>	<u>1,302,313</u>
Operating Expenses:				
Salaries and wages	293,198	234,537	33,107	560,842
Services and supplies	204,493	222,651	78,095	505,239
Landfill closure costs	--	--	47,519	47,519
Depreciation	114,549	93,230	4,277	212,056
Total Operating Expenses	<u>612,240</u>	<u>550,418</u>	<u>162,998</u>	<u>1,325,656</u>
Operating Income (Loss)	<u>(99,429)</u>	<u>(84,551)</u>	<u>160,637</u>	<u>(23,343)</u>
Non-Operating Revenue (Expenses):				
Interest income (loss)	2,267	3,400	1,756	7,423
Miscellaneous revenue	121,917	--	--	121,917
Intergovernmental revenue	--	--	7,686	7,686
Debt service interest and fiscal charges	(58,913)	(4,263)	--	(63,176)
Total Non-Operating Revenue (Expenses)	<u>65,271</u>	<u>(863)</u>	<u>9,442</u>	<u>73,850</u>
Change in Net Assets	(34,158)	(85,414)	170,079	50,507
Net Assets, Beginning of Year	<u>2,749,233</u>	<u>3,257,728</u>	<u>(2,135,365)</u>	<u>3,871,596</u>
Net Assets, End of Year	<u>\$ 2,715,075</u>	<u>\$ 3,172,314</u>	<u>\$ (1,965,286)</u>	<u>\$ 3,922,103</u>

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

CITY OF PORTOLA

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Water Service</u>	<u>Sewer Service</u>	<u>Solid Waste</u>	
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 507,885	\$ 472,307	\$ 324,002	\$ 1,304,194
Cash paid to suppliers for goods and services	(208,067)	(222,586)	(113,499)	(544,152)
Cash paid to employees for services	(287,195)	(228,976)	(32,621)	(548,792)
 Net Cash Provided (Used) by Operating Activities	 <u>12,623</u>	 <u>20,745</u>	 <u>177,882</u>	 <u>211,250</u>
Cash Flows From Noncapital Financing Activities:				
Prepayments on shared construction project	(100,000)	--	--	(100,000)
Cash repayments from (to) other funds	176,692	42,592	(46,402)	172,882
Cash received from grants	--	--	7,686	7,686
Miscellaneous income received	350	--	--	350
 Net Cash Provided (Used) by Noncapital Financing Activities	 <u>77,042</u>	 <u>42,592</u>	 <u>(38,716)</u>	 <u>80,918</u>
Cash Flows From Capital and Related Financing Activities:				
Lake Davis reimbursement received	121,567	--	--	121,567
Principal repayments on long-term debt	(32,500)	(24,431)	(16,800)	(73,731)
Interest repayments related to capital purposes	(58,913)	(4,263)	--	(63,176)
Payments related to the acquisition of capital assets	(122,677)	(105,760)	(783)	(229,220)
 Net Cash Provided (Used) by Capital and Related Financing Activities	 <u>(92,523)</u>	 <u>(134,454)</u>	 <u>(17,583)</u>	 <u>(244,560)</u>
Cash Flows From Investing Activities:				
Interest received	2,858	4,539	1,756	9,153
Net Cash Provided by Investing Activities	<u>2,858</u>	<u>4,539</u>	<u>1,756</u>	<u>9,153</u>
Net Increase (Decrease) in Cash and Cash Equivalents	--	(66,578)	123,339	56,761
Cash and Cash Equivalents, Beginning of Year	380,898	545,415	479,819	1,406,132
Cash and Cash Equivalents, End of Year	<u>\$ 380,898</u>	<u>\$ 478,837</u>	<u>\$ 603,158</u>	<u>\$ 1,462,893</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ --	\$ 41,938	\$ --	\$ 41,938
Cash and cash equivalents in restricted assets	380,898	436,899	603,158	1,420,955
 Total Cash and Cash Equivalents	 <u>\$ 380,898</u>	 <u>\$ 478,837</u>	 <u>\$ 603,158</u>	 <u>\$ 1,462,893</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, 2010

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (99,429)	\$ (84,551)	\$ 160,637	\$ (23,343)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	114,549	93,230	4,277	212,056
Changes in assets and liabilities:				
(Increase) decrease in:				
Utilities receivable	(4,926)	--	--	(4,926)
Accounts receivable	--	6,440	367	6,807
Customer deposits	1,563	--	--	1,563
Prepaid items	--	--	--	--
Increase (decrease) in:				
Accounts payable	(3,574)	65	(303)	(3,812)
Accrued expenses	1,432	1,006	158	2,596
Liability for compensated absences	3,008	4,555	328	7,891
Closure/postclosure liability	--	--	12,418	12,418
Net Cash Provided (Used) by Operating Activities	<u>\$ 12,623</u>	<u>\$ 20,745</u>	<u>\$ 177,882</u>	<u>\$ 211,250</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, 2010

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, 2010.

B. Basis of Financial Presentation

Government-Wide Financial Statements

The statement of net assets 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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

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

Government-Wide Financial Statements (continued)

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 assets 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.

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 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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

B. Basis of Financial Presentation (continued)

Fund Financial Statements (continued)

- 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, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

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

For its business-type activities and enterprise funds, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America for governmental units.

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".

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

E. Interfund Transactions and Balances (continued)

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

G. Property Tax

Plumas County assesses properties and it bills, collects, and distributes property taxes to the City.

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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

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. Prepaid Expense

Prepaid expenses consist of the City’s contribution toward the water treatment plant that is under construction and currently belongs to the Plumas County Flood Control District. After completion, ownership of the plant will be transferred to the City.

K. Compensated Absences

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

<u>Employee Status</u>	<u>% of Sick Hours Received</u>	<u>% of Vacation Hours Received</u>
Part-time	15	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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 1: **Summary of Significant Accounting Policies** (continued)

K. **Compensated Absences** (continued)

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.

Note 2: **Net Assets/Fund Balance**

Net Assets

The government-wide activities financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. 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 Assets* – 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 Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

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

Fund Balances

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Council and management and can be increased, reduced or eliminated by similar actions.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2010

Note 2: Net Assets/Fund Balance (continued)

Fund Balances (continued)

As of June 30, 2010, reservations of fund balance are described below:

The term “reserved” is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The City’s management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

The City has “reserved” fund balances as follows:

- *Reserve for imprest cash* – unavailable for appropriation because the City maintains various levels of revolving funds for daily operations.
- *Reserve for prepaid expenses* – to reflect the portion of assets which do not represent available spendable resources.
- *Reserve for programs* – was created to present monies reserved for Community Development Grant Fund programs.
- *Reserve for economic uncertainty* – to be used to pay the cost of providing City services during poor economic times or in times when the cost of services rises dramatically.

Note 3: Cash and Investments

At June 30, 2010, total City cash and investments at fair value were as follows:

Petty cash	\$	335
Cash in bank		208,177
Certificates of deposit		262,985
LAIF		3,935,460
U.S. government securities		131,778
Money market funds		<u>208,395</u>
		<u>\$ 4,747,130</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 3: **Cash and Investments** (continued)

Total cash and investments at June 30, 2010 were presented on the City's financial statements as follows:

Cash and investments in pool	\$ 3,325,840
Imprest cash	335
Restricted Assets:	
Cash	817,797
Investments	<u>603,158</u>
	<u>\$ 4,747,130</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, 2010, the City had the following investments:

	<u>Par</u>	<u>Cost</u>	<u>Fair Value</u>	<u>WAM (Years)</u>
Investments				
U.S. Government securities	\$ 132,000	\$ 132,000	\$ 131,778	0.29
Certificates of deposit	261,000	261,000	262,985	0.08
Money market funds	208,395	208,395	208,395	-
Local Agency Investment Fund (LAIF)	<u>3,935,460</u>	<u>3,935,460</u>	<u>3,935,460</u>	-
Total Investments	<u>\$4,536,855</u>	<u>\$4,536,855</u>	<u>\$4,538,618</u>	<u>0.01</u>

The fair value for the money market funds, U.S. government securities and the certificates of deposit were obtained from the custodial bank statements of Securities America.

Interest Rate Risk

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

CITY OF PORTOLA

Notes to Financial Statements June 30, 2010

Note 3: **Cash and Investments** (continued)

Credit Risk

The City authorizes participation in the following types of investments: FDIC Insured Accounts, Local Agency Investment Fund, and United States Government Securities. The City does not have credit limits on government agency securities. All government agency securities 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, 2010.

	<u>Moody's</u>	<u>% of Portfolio</u>
U.S. Treasury securities - coupon	Aaa	2.90%
Certificates of deposit	Unrated	5.80%
Money market funds	Unrated	4.59%
Local Agency Investment Fund (LAIF)	Unrated	86.71%
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, 2010, the recorded amount of the City's deposits was \$208,177 and the bank balance was \$359,577. Of the bank statement balance \$250,000 was covered by federal depository insurance and \$109,577 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.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2010

Note 3: **Cash and Investments** (continued)

Local Agency Investment Fund (continued)

At June 30, 2010, the City's investment position in LAIF was \$3,935,460, 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 \$69.3 billion. Of that amount, 5.42% was invested in structured notes and asset-backed securities with the remaining 94.58% invested in other non-derivative financial products.

Note 4: **Loans and Notes Receivable**

During the fiscal year ended June 30, 2005, the City sold land in the South Development area for \$4,725,000. A down payment of \$1,375,000 was received at the point of sale with the remainder of the amount to be paid under two note receivables for \$2,100,000 and \$1,250,000 bearing interest at the rate of 6.0% over a 55 month term and carrying 0.0% interest due on or before the first day of the 96th month, respectively. At June 30, 2010, the outstanding balance of these notes is \$1,250,000. Additionally, the City has three loans receivable in the amount of \$62,046, which are comprised of loans to individuals for community development. The City also issued Community Development Block Grant (CDBG) loans in the amount of \$78,954. The total loans and notes receivable at June 30, 2010 is \$1,391,000.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2010

Note 5: Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2010
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 527,480	\$ --	\$ --	\$ --	\$ 527,480
Construction in progress	744,084	802,678	--	(434,218)	1,112,544
Total capital assets, not being depreciated	1,271,564	802,678	--	(434,218)	1,640,024
Capital assets, being depreciated:					
Infrastructure	6,356,366	--	--	434,218	6,790,584
Buildings and improvements	1,164,367	4,081	--	--	1,168,448
Machinery and equipment	1,056,291	9,494	(5,953)	--	1,059,832
Total capital assets, being depreciated	8,577,024	13,575	(5,953)	434,218	9,018,864
Less accumulated depreciation for:					
Infrastructure	(1,556,369)	(315,594)	--	--	(1,871,963)
Buildings and improvements	(341,946)	(71,014)	--	--	(412,960)
Machinery and equipment	(575,268)	(83,876)	5,953	--	(653,191)
Total accumulated depreciation	(2,473,583)	(470,484)	5,953	--	(2,938,114)
Total capital assets, being depreciated, net	6,103,441	(456,909)	--	434,218	6,080,750
Governmental activities capital assets, net	<u>\$ 7,375,005</u>	<u>\$ 345,769</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,720,774</u>
	Balance July 1, 2009	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2010
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 62,844	\$ --	\$ --	\$ --	\$ 62,844
Construction in progress	233,533	16,751	--	(233,533)	16,751
Total capital assets, not being depreciated	296,377	16,751	--	(233,533)	79,595
Capital assets, being depreciated:					
Buildings and improvements	6,804,159	210,119	--	233,533	7,247,811
Machinery and equipment	923,524	2,350	--	--	925,874
Total capital assets, being depreciated	7,727,683	212,469	--	233,533	8,173,685
Less accumulated depreciation for:					
Buildings and improvements	(1,802,453)	(149,073)	--	--	(1,951,526)
Machinery and equipment	(726,948)	(62,983)	--	--	(789,931)
Total accumulated depreciation	(2,529,401)	(212,056)	--	--	(2,741,457)
Total capital assets, being depreciated, net	5,198,282	413	--	233,533	5,432,228
Business-type activities, net	<u>\$ 5,494,659</u>	<u>\$ 17,164</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,511,823</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 6: **Depreciation**

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

Governmental Activities:

General government	\$ 14,320
Parks and recreation	76,270
Public safety	58,505
Public works	2,323
Snow removal	12,197
Streets and roads	306,869
Total Depreciation Expense – Governmental Activities	\$ 470,484

Business-Type Activities:

Water Fund	\$ 114,549
Sewer Fund	93,230
Solid Waste Fund	4,277
Total Depreciation Expense – Business-Type Activities	\$ 212,056

Note 7: **Long-Term Liabilities**

Long-term liabilities at June 30, 2010 consisted of the following:

	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2010
<u>Governmental Activities</u>						
Capital Lease Obligations <i>(fire truck)</i>	2001	7/15/2010	5.85%	\$15,638 - \$24,646	\$ 202,422	\$ 24,647
Total Governmental Activities					\$ 202,422	\$ 24,647
<u>Business-Type Activities</u>						
1997 Special Assessment Water Improvement Note Payable <i>(to finance improvements to the City's water system)</i>	1997	5/1/2037	5.00%	\$5,000 - \$25,000	\$ 1,173,000	\$ 1,004,000
1997 Emergency Dought Relief Note	1977	11/1/2017	5.00%	\$3,000 - \$7,000	325,000	126,000
1978 Water System Note <i>(to finance improvement to the City's water system)</i>	1978	11/1/2017	5.00%	\$500 - \$3,500	60,000	23,000
1998 Sewer System Notes <i>(to finance improvements to the City's sewer system)</i>	1998	6/30/2018	1.80%	\$20,071 - \$28,185	478,224	211,990
2005 Landfill Closure Note Payable	2005	7/1/2015	0.00%	\$16,800	168,000	84,000
Total Business-Type Activities					\$ 2,204,224	\$ 1,448,990

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 7: **Long-Term Liabilities** (continued)

The following is a summary of long-term liabilities transactions for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One Year
Governmental Activities:					
Capital leases payable	\$ 47,931	\$ --	\$ 23,284	\$ 24,647	\$ 24,647
Compensated absences	54,639	17,775	19,252	53,162	19,252
Total	<u>\$ 102,570</u>	<u>\$ 17,775</u>	<u>\$ 42,536</u>	<u>\$ 77,809</u>	<u>\$ 43,899</u>
Business-type Activities:					
Notes payable	\$ 1,522,721	\$ --	\$ 73,731	\$ 1,448,990	\$ 75,171
Closure and postclosure costs	2,069,584	12,418	--	2,082,002	--
Compensated absences	42,261	16,768	8,877	50,152	16,768
Total	<u>\$ 3,634,566</u>	<u>\$ 29,186</u>	<u>\$ 82,608</u>	<u>\$ 3,581,144</u>	<u>\$ 91,939</u>

As of June 30, 2010, annual debt service requirements of business-type activities to maturity are as follows:

Year Ending June 30	<u>Business-Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 75,171	\$ 61,085
2012	77,620	58,936
2013	79,076	56,705
2014	82,041	54,377
2015	67,714	51,929
2016-2020	294,367	221,951
2021-2025	167,000	177,400
2026-2030	211,000	131,500
2031-2035	269,000	73,100
2036-2038	<u>126,000</u>	<u>9,500</u>
Total	<u>\$ 1,448,990</u>	<u>\$ 896,483</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 8: **Leases**

Capital Leases:

The City has entered into long-term capital lease agreements under which the related vehicles and equipment will become the property of the City when all terms of the lease agreements are met.

Year Ending June 30	Governmental Activities
2011	\$ 26,089
Less Interest	(1,442)
Present Value of Remaining Payments	\$ 24,647

Capital assets and accumulated depreciation held under capital leases are as follows:

	Governmental Activities
Equipment	\$ 202,422
Less accumulated depreciation	(121,453)
Net Capital Assets	\$ 80,969

Note 9: **Interfund Transactions and Balances**

The composition of interfund balances as of June 30, 2010 is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Water Service Nonmajor Governmental	\$ 356,033 <u>104,144</u>	To cover cash deficit expected to be recovered through future revenues.
		\$ 460,177	

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 9: **Interfund Transactions and Balances** (continued)

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Solid Waste	\$ 512,019	To cover cash deficit expected to be recovered through future revenues.

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, 2010:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 147,641
	Total	\$ 147,641

Note 10: **Expenditures/Expenses in Excess of Budget and Deficit Fund Balance/Net Assets**

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>			
Sewer Service	\$ 549,501	\$ 554,679	\$ (5,178)
Solid Waste	144,848	163,662	(18,814)
<u>Nonmajor Governmental Funds:</u>			
Special Revenue Funds:			
Gas Tax Sec. 2106	\$ 12,450	\$ 12,536	\$ (86)
Snow Removal	186,142	195,711	(9,569)
CDBG	41,159	41,260	(101)

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 10: **Expenditures/Expenses in Excess of Budget and Deficit Fund Balance/Net Assets**
(continued)

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

Enterprise Funds:	
Solid Waste Fund	\$ (1,965,286)
Special Revenue Funds:	
STIP	(54,798)
Governmental Funds:	
Gas Tax 2107	(45,754)

The Solid Waste Fund has incurred a deficit net assets 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 due to excess expenditures not eligible for grant reimbursement. The City will transfer monies to cover the deficit in future years.

The Gas Tax Fund has a deficit fund balance due to eligible expenditures in excess of the allocated amount. The City will transfer monies to cover the deficit in future years.

Note 11: **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. 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:

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 11: **Defined Benefit Pension Plans** (continued)

B. Funding Policy (continued)

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 2009/2010, the City of Portola's annual pension cost was \$23,178 and the City actually contributed \$23,178. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%.

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, 2010

Note 11: **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
6/30/08	\$ 22,047	100%	\$ --
6/30/09	19,925	100%	--
6/30/10	23,178	100%	--

Note 12: **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 13: **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 assets date. Since the landfill is no longer accepting waste, the entire estimated expense and related liability have been reported.

As of June 30, 2010, the City's estimated liability for postclosure maintenance costs for the landfill was \$2,082,002.

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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2010

Note 13: **Landfill Closure and Postclosure Care Cost** (continued)

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 \$603,158 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.

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 14: **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.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2010

Note 14: **Risk Management** (continued)

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 15: **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, 2010.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF PORTOLA

Required Supplementary Information
For the Year Ended June 30, 2010

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 Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 554,500	\$ 554,500	\$ 492,482	\$ (62,018)
Licenses and permits	84,000	84,000	67,153	(16,847)
Fines, forfeitures and penalties	2,000	2,000	3,648	1,648
Use of money and property	52,000	52,000	23,388	(28,612)
Intergovernmental	301,000	714,252	723,482	9,230
Charges for services	52,100	52,100	69,126	17,026
Other revenues	--	--	1,801	1,801
Total Revenues	<u>1,045,600</u>	<u>1,458,852</u>	<u>1,381,080</u>	<u>(77,772)</u>
Expenditures:				
Current:				
General government	317,979	328,779	324,240	4,539
Planning and community development	94,326	292,984	291,310	1,674
Public safety	301,230	311,794	303,586	8,208
Public works	93,439	103,439	103,473	(34)
Parks and recreation	73,122	533,002	537,493	(4,491)
Debt Service				
Principal	23,284	23,284	23,284	--
Interest	2,805	2,805	2,805	--
Total Expenditures	<u>906,185</u>	<u>1,596,087</u>	<u>1,586,191</u>	<u>9,896</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>139,415</u>	<u>(137,235)</u>	<u>(205,111)</u>	<u>(67,876)</u>
Other Financing Sources (Uses):				
Transfers out	<u>(156,718)</u>	<u>(156,718)</u>	<u>(147,641)</u>	<u>9,077</u>
Total Other Financing Sources (Uses)	<u>(156,718)</u>	<u>(156,718)</u>	<u>(147,641)</u>	<u>9,077</u>
Net Change in Fund Balances	(17,303)	(293,953)	(352,752)	(58,799)
Fund Balances, Beginning of Year	<u>4,249,755</u>	<u>4,249,755</u>	<u>4,249,755</u>	<u>--</u>
Fund Balances, End of Year	<u>\$ 4,232,452</u>	<u>\$ 3,955,802</u>	<u>\$ 3,897,003</u>	<u>\$ (58,799)</u>

continued

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General Fund For the Year Ended June 30, 2010 (continued)

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues
and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the
budgetary comparison schedule \$ 1,381,080

Capital contribution reported as intergovernmental revenue -
budgeted in prior year 185,000

Total revenues as reported on the statement of revenues, expenditures, and
changes in fund balances - governmental funds \$ 1,566,080

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the
budgetary comparison schedule \$ 1,586,191

Cost of aquired asset through capital contribution 185,000

Total expenditures as reported on the statement of revenues,
expenditures, and changes in fund balances - governmental funds \$ 1,771,191

CITY OF PORTOLA

Note to Required Supplementary Information For the Year Ended June 30, 2010

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

NONMAJOR SPECIAL REVENUE FUNDS

CITY OF PORTOLA

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2010

	<u>Gas Tax</u>	<u>Gas Tax</u>	<u>Community</u> <u>Development</u>	<u>Gas Tax</u>
	<u>Sec 2105</u>	<u>Sec 2106</u>	<u>Block</u> <u>Grant</u>	<u>Sec 2107.5</u>
<u>Assets</u>				
Cash and investments	\$ 6,613	\$ 2,895	\$ 489,161	\$ 10,558
Interest receivable	9	4	654	15
Notes receivable	--	--	141,000	--
Due from other governmental agencies	--	--	--	--
Total Assets	<u>\$ 6,622</u>	<u>\$ 2,899</u>	<u>\$ 630,815</u>	<u>\$ 10,573</u>
 <u>Liabilities and Fund Balance</u>				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ 650	\$ --
Accrued liabilities	240	240	283	--
Due to other funds	--	--	--	--
Total Liabilities	<u>240</u>	<u>240</u>	<u>933</u>	<u>--</u>
 Fund Balance:				
Reserve for programs	--	--	118,734	--
Reserved for notes receivables	--	--	141,000	--
Unreserved:				
Undesignated	6,382	2,659	370,148	10,573
Total Fund Balance	<u>6,382</u>	<u>2,659</u>	<u>629,882</u>	<u>10,573</u>
Total Liabilities and Fund Balance	<u>\$ 6,622</u>	<u>\$ 2,899</u>	<u>\$ 630,815</u>	<u>\$ 10,573</u>

continued

CITY OF PORTOLA

Combining Balance Sheet (continued)
 Nonmajor Special Revenue Funds
 June 30, 2010

	STIP	Snow Removal	Gas Tax Sec 2107	Total
<u>Assets</u>				
Cash and investments	\$ --	\$ 7,416	\$ --	\$ 516,643
Interest receivable	--	--	--	682
Notes receivable	--	--	--	141,000
Due from other governmental agencies	--	--	5,001	5,001
Total Assets	\$ --	\$ 7,416	\$ 5,001	\$ 663,326
 <u>Liabilities and Fund Balance</u>				
Liabilities:				
Accounts payable	\$ --	\$ 5,108	\$ 990	\$ 6,748
Accrued liabilities	--	2,308	419	3,490
Due to other funds	54,798	--	49,346	104,144
Total Liabilities	54,798	7,416	50,755	114,382
 Fund Balance:				
Reserve for programs	--	--	--	118,734
Reserved for notes receivables	--	--	--	141,000
Unreserved:				
Undesignated	(54,798)	--	(45,754)	289,210
Total Fund Balance	(54,798)	--	(45,754)	548,944
Total Liabilities and Fund Balance	\$ --	\$ 7,416	\$ 5,001	\$ 663,326

CITY OF PORTOLA

Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2010

	<u>Gas Tax Sec 2105</u>	<u>Gas Tax Sec 2106</u>	<u>Community Development Block Grant</u>	<u>Gas Tax Sec 2107.5</u>
Revenues:				
Use of money and property	\$ 37	\$ 11	\$ 5,598	\$ 70
Intergovernmental	<u>12,105</u>	<u>10,702</u>	<u>7,808</u>	<u>1,000</u>
Total Revenues	<u><u>12,142</u></u>	<u><u>10,713</u></u>	<u><u>13,406</u></u>	<u><u>1,070</u></u>
Expenditures:				
Current:				
Streets and roads	14,239	12,536	--	1,000
Public safety	--	--	--	--
Planning and community development	<u>--</u>	<u>--</u>	<u>41,261</u>	<u>--</u>
Total Expenditures	<u><u>14,239</u></u>	<u><u>12,536</u></u>	<u><u>41,261</u></u>	<u><u>1,000</u></u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,097)</u>	<u>(1,823)</u>	<u>(27,855)</u>	<u>70</u>
Other Financing Sources (Uses):				
Transfers in	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Financing Sources (Uses)	<u><u>--</u></u>	<u><u>--</u></u>	<u><u>--</u></u>	<u><u>--</u></u>
Net Change in Fund Balances	(2,097)	(1,823)	(27,855)	70
Fund Balances, Beginning of Year	<u>8,479</u>	<u>4,482</u>	<u>657,737</u>	<u>10,503</u>
Fund Balances, End of Year	<u><u>\$ 6,382</u></u>	<u><u>\$ 2,659</u></u>	<u><u>\$ 629,882</u></u>	<u><u>\$ 10,573</u></u>

continued

CITY OF PORTOLA

Statement of Revenues, Expenditures and
Changes in Fund Balances (continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2010

	STIP	Snow Removal	Gas Tax Sec 2107	Total
Revenues:				
Use of money and property	\$ --	\$ --	\$ --	\$ 5,716
Intergovernmental	5,165	84,907	44,438	166,125
Total Revenues	5,165	84,907	44,438	171,841
Expenditures:				
Current:				
Streets and roads	9,797	195,711	86,176	319,459
Public safety	--	--	23,738	23,738
Planning and community development	--	--	--	41,261
Total Expenditures	9,797	195,711	109,914	384,458
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,632)	(110,804)	(65,476)	(212,617)
Other Financing Sources (Uses):				
Transfers in	--	110,804	36,837	147,641
Total Other Financing Sources (Uses)	--	110,804	36,837	147,641
Net Change in Fund Balances	(4,632)	--	(28,639)	(64,976)
Fund Balances, Beginning of Year	(50,166)	--	(17,115)	613,920
Fund Balances, End of Year	\$ (54,798)	\$ --	\$ (45,754)	\$ 548,944

OTHER REPORTS



**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***

City Council
City of Portola
Portola, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Portola as of and for the year ended June 30, 2010, which collectively comprise the City of Portola's financial statements and have issued our report thereon dated December 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

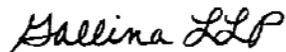
City Council
City of Portola

Compliance and Other Matters

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

This report is intended solely for the information of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

GALLINA LLP

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California
December 2, 2010