

CITY OF PORTOLA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Council Members
City of Portola, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portola, California, (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability/(asset) and related ratios, and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Honorable Mayor and Council Members
City of Portola

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Roseville, California
February 6, 2018

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

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017. It should be read in conjunction with the City's basic financial statements following this section.

I. FINANCIAL HIGHLIGHTS

A. Government-Wide Financial Analysis

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$18,188,410:

- \$14,595,493 represents the City's investment in capital assets, less any related outstanding debt used to acquire those assets (net investment in capital assets).
- \$1,173,551 is available for the City's ongoing obligations related to programs with external restrictions (restricted net position).
- \$2,419,366 is available to fund City programs for citizens and debt obligations to creditors (unrestricted net position).

The City's total net position increased by \$1,498,084 from the prior year:

- The \$1,563,777 increase in net position net investment in capital assets represents infrastructure and other additions of \$2,413,686 less depreciation of \$923,924 and the retirement of related long-term debt of \$73,687.
- The \$32,236 decrease in restricted net position represents the change in resources that are subject to external restrictions on their use, and is detailed in the government-wide financial analysis section on page 6.

B. Financial Analysis of the City's Funds

The City's governmental funds combined ending fund balance of \$3,040,202 was a decrease of \$411,637 from the prior year ending fund balance of \$3,451,839. Amounts available for spending include restricted, committed, assigned, and unassigned fund balances; these totaled \$2,331,166, or 77% of ending fund balance. Of this amount, \$324,265 is restricted by law or externally imposed requirements.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

A. Government-Wide Financial Statements

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

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

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

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

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

B. Fund Financial Statements

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

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

The City maintains 5 individual governmental funds. On the financial statements for governmental funds, information is presented separately for the General Fund and for the State Transportation Improvement Plan funds. 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 actuarial information related to the City's pension plans as well as budgetary comparisons for the General Fund as required supplementary information.

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

III. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Condensed Statement of Net Position
June 30, 2017 and 2016**

	Governmental Activities		Business-Type Activities		Total		Total	
	2017	2016	2017	2016	2017	2016	Dollar Change	Percent Change
Current and Other Assets	\$ 3,140,087	\$ 4,391,376	\$ 2,352,861	\$ 1,667,389	\$ 5,492,948	\$ 6,058,765	\$ (565,817)	-9%
Capital Assets	9,903,332	8,266,988	5,597,846	5,744,100	15,501,178	14,011,088	1,490,090	11%
Total Assets	<u>13,043,419</u>	<u>12,658,364</u>	<u>7,950,707</u>	<u>7,411,489</u>	<u>20,994,126</u>	<u>20,069,853</u>	<u>924,273</u>	<u>5%</u>
Deferred Outflows of Resources	76,636	32,108	95,237	33,744	171,873	65,852	106,021	161%
Current and Other Liabilities	83,573	651,504	39,860	146,153	123,433	797,657	(674,224)	-85%
Long-Term Liabilities	299,031	220,981	2,482,836	2,358,661	2,781,867	2,579,642	202,225	8%
Total Liabilities	<u>382,604</u>	<u>872,485</u>	<u>2,522,696</u>	<u>2,504,814</u>	<u>2,615,223</u>	<u>3,377,299</u>	<u>(762,076)</u>	<u>-23%</u>
Deferred Inflows of Resources	35,708	33,941	36,581	94,470	72,289	128,411	(56,122)	-44%
Invested in Capital Assets, Net	9,903,332	8,266,988	4,692,161	4,764,728	14,595,493	13,031,716	1,563,777	12%
Restricted	324,265	367,298	849,286	838,489	1,173,551	1,205,787	(32,236)	-3%
Unrestricted	2,474,146	3,149,760	(54,780)	(696,937)	2,419,366	2,452,823	(33,457)	-1%
Total Net Position	<u>\$ 12,701,743</u>	<u>\$ 11,784,046</u>	<u>\$ 5,486,667</u>	<u>\$ 4,906,280</u>	<u>18,188,410</u>	<u>16,690,326</u>	<u>1,498,084</u>	<u>9%</u>

Net investment in capital assets reflects the City's investment in capital assets (i.e. its land, structures and improvements, infrastructure and equipment). The City uses the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represent 6% of the total net position and are resources subject to external restrictions on how they may be used.

Unrestricted net position represents 13% of the total net position and may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

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

**Statement of Activities
For the Years Ended June 30, 2017 and 2016**

	Governmental Activities		Business-Type Activities		Total		Total	
	2017	2016	2017	2016	2017	2016	Dollar Change	Percent Change
Program Revenues:								
Charges for Services	\$ 110,805	\$ 127,777	\$ 1,987,077	\$ 1,850,223	\$ 2,097,882	\$ 1,978,000	\$ 119,882	6%
Operating Grants and Contributions	540,638	867,516	-	-	540,638	867,516	(326,878)	-38%
Capital Grants and Contributions	2,155,757	-	-	-	2,155,757	-	2,155,757	100%
General Revenues:								
Property Taxes	219,263	289,520	-	-	219,263	289,520	(70,257)	-24%
Other Taxes	329,995	326,759	-	-	329,995	326,759	3,236	1%
Other Revenue	25,011	55,269	12,512	24,088	37,523	79,357	(41,834)	-53%
Total Revenues	<u>3,381,469</u>	<u>1,666,841</u>	<u>1,999,589</u>	<u>1,874,311</u>	<u>5,381,058</u>	<u>3,541,152</u>	<u>1,839,906</u>	<u>52%</u>
Expenses:								
General Government	288,515	565,471	-	-	288,515	565,471	(276,956)	-49%
Planning and Community Development	483,163	328,770	-	-	483,163	328,770	154,393	47%
Public Safety	301,607	417,261	-	-	301,607	417,261	(115,654)	-28%
Streets and Roads	1,034,333	753,221	-	-	1,034,333	753,221	281,112	37%
Public Works	104,152	92,850	-	-	104,152	92,850	11,302	12%
Parks and Recreation	252,002	134,072	-	-	252,002	134,072	117,930	88%
Water Service	-	-	711,052	634,144	711,052	634,144	76,908	12%
Sewer Service	-	-	562,180	464,807	562,180	464,807	97,373	21%
Solid Waste	-	-	145,970	202,693	145,970	202,693	(56,723)	-28%
Total Expenses	<u>2,463,772</u>	<u>2,291,645</u>	<u>1,419,202</u>	<u>1,301,644</u>	<u>3,882,974</u>	<u>3,593,289</u>	<u>289,685</u>	<u>8%</u>
Change in Net Position	917,697	(624,804)	580,387	572,667	1,498,084	(52,137)	1,550,221	-2973%
Net Position - July 1	<u>11,784,046</u>	<u>12,408,850</u>	<u>4,906,280</u>	<u>4,333,613</u>	<u>16,690,326</u>	<u>16,742,463</u>	<u>(52,137)</u>	<u>0%</u>
Net Position - June 30	<u>\$ 12,701,743</u>	<u>\$ 11,784,046</u>	<u>\$ 5,486,667</u>	<u>\$ 4,906,280</u>	<u>\$ 18,188,410</u>	<u>\$ 16,690,326</u>	<u>\$ 1,498,084</u>	<u>9%</u>

- Governmental activities reported a \$917,697 increase in net position, and business-type activities reported an increase of \$580,387, for a net increase of \$1,498,084.

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

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

requirements. In particular, total fund balance less the nonspendable portion is a useful measure of the City's resources available for spending at the end of the fiscal year.

At June 30, 2017, the City's governmental funds reported combined ending fund balances of \$3,040,202. Approximately 66% of this total amount, or \$2,006,901, of the total fund balance is available to meet the City's ongoing general obligation to citizens and creditors. The remainder of fund balance represents amounts that are not in spendable form and is comprised of long-term notes receivable and advances. The State Transportation Improvement Plan (STIP) was a major fund in the 2016-2017 fiscal year. The construction phase of a project on Road A-15 was in this fiscal year. While the expenses are 100% reimbursed by the State the City is waiting for the project to be closed out in order to invoice the final payment. There should be no financial impact on the General Fund or the need to use fund balance for this project

The General Fund is the main operating fund of the City. At June 30, 2017, total fund balance less the nonspendable portion of the General Fund was \$2,236,603 while total fund balance was \$2,945,639. As measures of the general fund's liquidity, it is useful to note that available fund balance represents 266% of total fund expenditures. It is the City's goal to maintain a minimum level of fund balance sufficient to preserve the City's credit rating in the event that the City needs financing and to maintain sufficient working capital. It is also the City's goal to maintain a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The City therefore adopted a policy that directs management to maintain a minimum level of unassigned fund balance in the City's General Fund as follows:

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

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

Revenues Classified by Source Governmental Funds						
<u>Revenue Sources</u>	<u>FY 2017</u>		<u>FY 2016</u>		<u>Change</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
Taxes	\$ 549,258	15%	\$ 616,279	38%	\$ (67,021)	-11%
Licenses and Permits	57,646	2%	79,147	5%	(21,501)	-27%
Fines and Forfeitures	345	0%	473	0%	(128)	-27%
Use of Money and Property	21,968	1%	18,932	1%	3,036	16%
Intergovernmental	2,986,540	81%	816,549	51%	2,169,991	266%
Charges for Services	52,814	1%	48,157	3%	4,657	10%
Other	3,043	0%	36,337	2%	(33,294)	-92%
Total	<u>\$ 3,671,614</u>	<u>100%</u>	<u>\$ 1,615,874</u>	<u>100%</u>	<u>\$ 2,055,740</u>	<u>127%</u>

Significant changes for major revenue sources are explained below.

- Property taxes decreased \$67,021 because in the prior year there had been a release of stranded supplemental funds from the County of Plumas and there had also been an increase in sales tax due to triple flip true up and accrual timing. This was not the case in this fiscal year.

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

- In the prior year licenses and permits had been up due to a commercial building permit. The City did not have that type of building permit in this fiscal year.
- There was a continued decrease in the dollar amount from fines and forfeitures brought in by law enforcement activities mainly due to the change in the Community Services Officer program.
- There is a small increase in the Use of Money and Property due to a small increase in interest rates.
- The large increase in intergovernmental from 2016 was the Grant funded projects and the ongoing A-15 project through STIP.
- The decrease in "other" was due to a prior year reimbursement from the County for the over collection of administrative fees over a number of years.

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

	Expenditures by Function Governmental Funds					
	FY 2017		FY 2016		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General Government	\$ 251,588	6%	\$ 534,214	25%	\$ (282,626)	-53%
Planning and Community Development	481,963	12%	326,361	15%	155,602	48%
Public Safety	298,415	7%	364,426	17%	(66,011)	-18%
Streets and Roads	2,828,941	69%	691,598	33%	2,137,343	309%
Public Works	76,918	2%	83,144	4%	(6,226)	-7%
Parks and Recreation	145,426	4%	126,329	6%	19,097	15%
Total Expenditures	<u>\$ 4,083,251</u>	<u>100%</u>	<u>\$ 2,126,072</u>	<u>100%</u>	<u>\$ 1,957,179.00</u>	<u>92%</u>

Significant changes for major functions are explained below:

- In 2016 there were large legal fees recorded in the General Government Expenditures. This was a one-time expenditure due to the law suit with Fish and Wildlife.
- Major grant expenditures are included in Planning and Community Development in 2017 including a public facilities CDBG grant. 2016 was higher because the City had to use the Program Income funds from Fund 215 (CDBG) and completed an ADA project.
- Public safety decreased as the large costs were associated with a fire on Commercial Street.
- Streets and Roads increased due to the construction phase expenditures in this year for the A-15 STIP project.
- Public Works had Grant Expenditures for a project funded by UP Railroad in the prior year.
- Parks and Recreation had an increase in water expenditures and increased payroll for lifeguards.

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

- **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. As of June 30, 2017 the proprietary (enterprise) funds net position was a combined \$5,486,667 with a net investment in capital assets of \$4,692,161 and a negative combined unrestricted net position of (\$54,780) due to the landfill closure liability.

V. GENERAL FUND BUDGETARY HIGHLIGHTS

The budget documents normally represent a financial plan for the City with four central goals in mind: (1) sustaining the level and quality of basic municipal services currently being provided our residents (2) maintaining the City's infrastructure while implementing scheduled and unscheduled improvements determined at the time of the budget process; (3) providing for some opportunity for investment in additional tools, equipment and programs that foster improvement in the overall aesthetics of the City as well as investment in social activities; and (4) developing plans for improved municipal services with a vision that will lead our community toward growth and tourism. This year's budget, while keeping all four goals in mind, addressed mainly goals number (1) sustaining the level and quality of services currently being provided to our residents and (2) maintaining the City's infrastructure. The challenge in maintaining the City's infrastructure was made more difficult when the City sustained major storm damage. In addition to the past goals there is a renewed emphasis on economic development.

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

For the fiscal year 2016/2017 General Fund revenues were more than budget by \$236,301 and General Fund expenditures were \$173,221 more than budgeted. The City originally budgeted \$214,256 for the use of fund balance and used \$224,991.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The change in capital assets for the Governmental Activities totaled \$1,636,344, net of depreciation for an ending balance of \$9,903,332.

Business-type capital assets for the fiscal year ending June 30, 2017, were \$5,597,846, net of depreciation. This is a decrease in Capital Assets of \$146,254. 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, 2017, the City had long-term debt outstanding of \$905,685. This is a decrease over June 30, 2017 of \$73,687. The entire long-term debt was attributable to Business-type activities. There is no long-term debt in the Governmental Activities.

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

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

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

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

For the 2016-2017 budget the process began as usual in February with City staff preparing draft level of services budgets for each area of the City. In March, City staff, the general public, and City Council participated in a FY 2016-2017 pre-budget preparation Goal Setting Workshop. The budget process continued through March, April and May with revisions to the level of services budgets, additions of "add ons" and discussion of what would be needed to provide a balanced budget. The 2016-2017 budget made changes to the employee benefits with a new structure on the employee co-pay of health insurance. The budget included step increases and a 1.2% Cost of living raise. The budgets included the urgent need for some equipment for Public Works as well as additional funding for street repairs. In order for the City Council to be able to make informed priority decisions, a report on the Fund Balances-Reserves for each of the City's budgeted funds was evaluated and prepared for City Council assessment. The critical need to maintain reserves is always in the forefront of finance discussions. The City has been able to fund major projects in advance of reimbursements because of the reserves that it currently maintains.

The 2017-2018 budget process followed the normal timeline for preparation with the exception that the Goal Setting was done in early March. The 2017-2018 budget again included step increases for employees and also included a 1.9% Cost of living increase. While the 2016-2017 budget had used a projected \$214,256 of the General Fund's fund balance to eliminate a shortfall of revenues over expenditures the 2017-2018 budget used a projected \$22,375. Even though this is a much reduced use of fund balance close attention needs to be paid to budget amendments and the use of additional fund balance.

Despite revenue reductions and staffing shortages, the General Fund continues to support the services necessary for the residents of Portola, including fire, parks, planning, building, animal control, and law enforcement through a Sheriff's contract for services and the addition to the Sheriff's contract of a Community Services Officer performing code enforcement, parking enforcements and service oriented duties. An emphasis on being a business friendly environment and attracting growth is evident but has not had a major impact on the budget. The City also continues to perform all its duties in the Streets, Water, Sewer, and Solid Waste. While the work is not included in the 2017-2018 budget we do anticipate that we will receive funds from FEMA for the storm damage and will be able to do work on the infrastructure that was affected.

With regard to the City Enterprise Funds the effects and impacts of changing state and federal government regulation is a constant challenge. But the major challenge the Enterprise Funds face is the aging infrastructure in the City. With no reserves for major repairs it may take some time for rates to cover the expenditures. The Solid Waste Fund had a positive cash balance but that amount is used each year to repay money borrowed from the General Fund from years past when rates were not sufficient to cover expenses. In the 2015-2016 fiscal year there was an increase in the amount that Solid Waste owes to the General Fund by the difference between the money set aside for landfill closure and the final cost of the closure. It has been an important goal of the City to close the landfill

**CITY OF PORTOLA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017**

with the long-range potential to decrease fees. While the landfill is closed, new requirements from the State will make it very difficult to ever decrease the fees. The landfill closure fee that is currently being collected goes entirely to repay the General Fund for the Closure loan. It is anticipated that the General Fund will be fully repaid in approximately 4 years. Enterprise Funds are "business-type" activities whose expenses need to be covered by the rate payers. The City Council will continue to review the need for any future rate increases each year during the budget process.

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

VIII. REQUESTS FOR INFORMATION

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

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

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**CITY OF PORTOLA
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Investments	2,203,350	1,615,478	3,818,828
Restricted Assets:			
Restricted Cash	-	849,288	849,288
Imprest Cash	335	-	335
Accounts Receivable	12,122	333,007	345,129
Interest Receivable	6,054	5,254	11,308
Due From Other Governments	129,894	4,072	133,966
Loans and Notes Receivable, Net	334,094	-	334,094
Internal Balances	454,238	(454,238)	-
Capital Assets:			
Nondepreciable	3,709,430	251,586	3,961,016
Depreciable, Net	6,193,902	5,346,260	11,540,162
Total Assets	<u>13,043,419</u>	<u>7,950,707</u>	<u>20,994,126</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pensions	<u>76,636</u>	<u>95,237</u>	<u>171,873</u>
LIABILITIES			
Accounts Payable	49,313	6,276	55,589
Accrued Salaries and Benefits Payable	11,829	6,357	18,186
Deposits	22,431	18,304	40,735
Unearned Revenue	-	5,000	5,000
Accrued Interest	-	3,923	3,923
Long-Term Liabilities:			
Portion Due or Payable Within One Year:			
Compensated Absences	10,216	7,153	17,369
Notes Payable	-	76,685	76,685
Portion Due or Payable After One Year:			
Compensated Absences	19,502	13,656	33,158
Notes Payable	-	829,000	829,000
Liability for Landfill Postclosure	-	1,247,765	1,247,765
Net Pension Liability	269,313	308,577	577,890
Total Liabilities	<u>382,604</u>	<u>2,522,696</u>	<u>2,905,300</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pensions	<u>35,708</u>	<u>36,581</u>	<u>72,289</u>
NET POSITION			
Net Investment in Capital Assets	9,903,332	4,692,161	14,595,493
Restricted:			
Planning and Community Development	238,603	-	238,603
General Government	85,662	-	85,662
Capital Improvements	-	759,049	759,049
Debt Service	-	90,237	90,237
Unrestricted	<u>2,474,146</u>	<u>(54,780)</u>	<u>2,419,366</u>
Total Net Position	<u><u>12,701,743</u></u>	<u><u>5,486,667</u></u>	<u><u>18,188,410</u></u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017**

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	\$ 288,515	\$ 27,432	\$ 142,517	\$ -
Planning and Community Development	483,163	1,127	137,565	-
Public Safety	301,607	55,432	-	-
Streets and Roads	1,034,333	-	259,936	2,155,757
Public Works	104,152	-	-	-
Parks and Recreation	252,002	26,814	620	-
Total Governmental Activities	<u>2,463,772</u>	<u>110,805</u>	<u>540,638</u>	<u>2,155,757</u>
Business-Type Activities:				
Water Service	711,052	965,330	-	-
Sewer Service	562,180	684,185	-	-
Solid Waste	145,970	337,562	-	-
Total Business-Type Activities	<u>1,419,202</u>	<u>1,987,077</u>	<u>-</u>	<u>-</u>
Total City of Portola	<u>\$ 3,882,974</u>	<u>\$ 2,097,882</u>	<u>\$ 540,638</u>	<u>\$ 2,155,757</u>

General Revenues

Taxes:

Property Taxes

Sales and Use Taxes

Other

Unrestricted Interest and Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (118,566)	\$ -	\$ (118,566)
(344,471)	-	(344,471)
(246,175)	-	(246,175)
1,381,360	-	1,381,360
(104,152)	-	(104,152)
(224,568)	-	(224,568)
<u>343,428</u>	<u>-</u>	<u>343,428</u>
-	254,278	254,278
-	122,005	122,005
-	191,592	191,592
<u>-</u>	<u>567,875</u>	<u>567,875</u>
<u>343,428</u>	<u>567,875</u>	<u>911,303</u>
219,263	-	219,263
266,884	-	266,884
63,111	-	63,111
21,968	12,018	33,986
3,043	494	3,537
<u>574,269</u>	<u>12,512</u>	<u>586,781</u>
917,697	580,387	1,498,084
<u>11,784,046</u>	<u>4,906,280</u>	<u>16,690,326</u>
<u>\$ 12,701,743</u>	<u>\$ 5,486,667</u>	<u>\$ 18,188,410</u>

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**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

**CITY OF PORTOLA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General	State Transportation Improvement Plan	Other Governmental Funds	Total
ASSETS				
Cash and Investments	\$ 2,040,982	\$ -	\$ 162,368	\$ 2,203,350
Imprest Cash	335	-	-	335
Notes Receivable	254,798	-	79,296	334,094
Accounts Receivable	12,122	-	-	12,122
Interest Receivable	5,714	-	340	6,054
Due From Other Funds	141,839	-	-	141,839
Advances to Other Funds	454,238	-	-	454,238
Due From Other Governmental Agencies	129,894	-	-	129,894
	<u>\$ 3,039,922</u>	<u>\$ -</u>	<u>\$ 242,004</u>	<u>\$ 3,281,926</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 46,526	\$ 2,201	\$ 586	\$ 49,313
Accrued Salaries and Benefits Payable	9,014	-	2,815	11,829
Deposits From Others	22,431	-	-	22,431
Due to Other Funds	-	141,839	-	141,839
Total Liabilities	<u>77,971</u>	<u>144,040</u>	<u>3,401</u>	<u>225,412</u>
Deferred Inflows of Resources:				
Unavailable Revenue	16,312	-	-	16,312
Total Deferred Inflows of Resources	<u>16,312</u>	<u>-</u>	<u>-</u>	<u>16,312</u>
Fund Balance:				
Nonspendable	709,036	-	-	709,036
Restricted	85,662	-	238,603	324,265
Assigned	22,375	-	-	22,375
Unassigned	2,128,566	(144,040)	-	1,984,526
Total Fund Balance	<u>2,945,639</u>	<u>(144,040)</u>	<u>238,603</u>	<u>3,040,202</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 3,039,922</u>	<u>\$ -</u>	<u>\$ 242,004</u>	<u>\$ 3,281,926</u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION –
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

Fund Balance - Total Governmental Funds (From Previous Page) \$ 3,040,202

Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:

Capital Assets Used in Governmental Activities are not Financial Resources and,
Therefore, are not Reported in the Governmental Funds. 9,903,332

Deferred Outflows of Resources as Reported in the Statement of Net Position 76,636
Deferred Inflows of Resources as Reported in the Statement of Net Position (35,708)

Unavailable Revenues and Long-Term Assets Represent Amounts That are not Available
to Fund Current Expenditures and, Therefore, are not Reported in the Governmental Funds:

Unavailable Revenues 16,312
Compensated Absences (29,718)
Net Pension Liability (269,313)

Net Position of Governmental Activities \$ 12,701,743

CITY OF PORTOLA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	General	State Transportation Improvement Plan	Other Governmental Funds	Total
REVENUES				
Taxes	\$ 549,258	\$ -	\$ -	\$ 549,258
Licenses and Permits	57,646	-	-	57,646
Fines, Forfeitures and Penalties	345	-	-	345
Use of Money and Property	20,786	-	1,182	21,968
Intergovernmental	710,784	2,155,757	119,999	2,986,540
Charges for Services	52,814	-	-	52,814
Other Revenues	3,043	-	-	3,043
Total Revenues	<u>1,394,676</u>	<u>2,155,757</u>	<u>121,181</u>	<u>3,671,614</u>
EXPENDITURES				
Current:				
General Government	251,588	-	-	251,588
Planning and Community Development	430,868	-	51,095	481,963
Public Safety	271,990	-	26,425	298,415
Streets and Roads	-	2,292,490	536,451	2,828,941
Public Works	76,918	-	-	76,918
Parks and Recreation	145,426	-	-	145,426
Total Expenditures	<u>1,176,790</u>	<u>2,292,490</u>	<u>613,971</u>	<u>4,083,251</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	217,886	(136,733)	(492,790)	(411,637)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	442,877	442,877
Transfers Out	<u>(442,877)</u>	<u>-</u>	<u>-</u>	<u>(442,877)</u>
Total Other Financing Sources (Uses)	<u>(442,877)</u>	<u>-</u>	<u>442,877</u>	<u>-</u>
Net Change in Fund Balances	(224,991)	(136,733)	(49,913)	(411,637)
Fund Balances - Beginning of Year	<u>3,170,630</u>	<u>(7,307)</u>	<u>288,516</u>	<u>3,451,839</u>
Fund Balances - End of Year	<u>\$ 2,945,639</u>	<u>\$ (144,040)</u>	<u>\$ 238,603</u>	<u>\$ 3,040,202</u>

See accompanying Notes to 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
FISCAL YEAR ENDED JUNE 30, 2017**

Net Change to Fund Balance - Total Governmental Funds		\$ (411,637)
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	\$ 2,319,460	
Less: Current Year Depreciation	<u>(683,116)</u>	1,636,344
Revenues in the Statement of Activities That do not Provide Current Financial Resources are not Reported as Revenues in the Governmental Funds.		(290,145)
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		17,220
Change in Accrued Net Pension Liability		<u>(34,085)</u>
Change in Net Position of Governmental Activities		<u>\$ 917,697</u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
ASSETS				
Current Assets:				
Cash and Investments	\$ 900,374	\$ 710,104	\$ 5,000	\$ 1,615,478
Interest Receivable	2,754	2,500	-	5,254
Account Receivable	165,006	107,821	60,180	333,007
Due from Other Governments	4,072	-	-	4,072
Restricted Assets:				
Restricted Cash	388,928	460,358	-	849,286
Restricted Investment	-	-	2	2
Total Current Assets	<u>1,461,134</u>	<u>1,280,783</u>	<u>65,182</u>	<u>2,807,099</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	188,742	31,422	31,422	251,586
Depreciable, Net	2,866,698	2,449,550	30,012	5,346,260
Total Noncurrent Assets	<u>3,055,440</u>	<u>2,480,972</u>	<u>61,434</u>	<u>5,597,846</u>
Total Assets	4,516,574	3,761,755	126,616	8,404,945
DEFERRED OUTFLOWS - PENSION	47,904	42,110	5,223	95,237
LIABILITIES				
Current Liabilities:				
Accounts Payable	3,455	1,380	1,441	6,276
Accrued Salaries and Benefits Payable	3,848	2,179	330	6,357
Deposits	18,304	-	-	18,304
Unearned Revenue	-	-	5,000	5,000
Accrued Interest	3,669	254	-	3,923
Liability for Compensated Absences	3,670	3,039	444	7,153
Notes Payable - Current Portion	48,500	28,185	-	76,685
Total Current Liabilities	<u>81,446</u>	<u>35,037</u>	<u>7,215</u>	<u>123,698</u>
Noncurrent Liabilities				
Liability for Compensated Absences	7,005	5,802	849	13,656
Advances From Other Funds	-	-	454,238	454,238
Landfill Closure and Postclosure	-	-	1,247,765	1,247,765
Notes Payable	829,000	-	-	829,000
Net Pension Liability	151,897	138,022	18,658	308,577
Total Noncurrent Liabilities	<u>987,902</u>	<u>143,824</u>	<u>1,721,510</u>	<u>2,853,236</u>
Total Liabilities	1,069,348	178,861	1,728,725	2,976,934
DEFERRED INFLOWS - PENSION	17,644	16,536	2,401	36,581
NET POSITION				
Net Investment in Capital Assets	2,177,940	2,452,787	61,434	4,692,161
Restricted:				
Debt Service	90,237	-	-	90,237
Facility Fees	298,691	263,109	-	561,800
Capital Projects	-	197,249	-	197,249
Unrestricted	910,618	695,323	(1,660,721)	(54,780)
Total Net Position	<u>\$ 3,477,486</u>	<u>\$ 3,608,468</u>	<u>\$ (1,599,287)</u>	<u>\$ 5,486,667</u>

See accompanying Notes to Financial Statements.

CITY OF PORTOLA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Water Service</u>	<u>Sewer Service</u>	<u>Solid Waste</u>	
OPERATING REVENUES				
Fines	\$ 31,145	\$ 21,108	\$ 6,056	\$ 58,309
Charges for Services	934,185	663,077	331,506	1,928,768
Total Operating Revenues	<u>965,330</u>	<u>684,185</u>	<u>337,562</u>	<u>1,987,077</u>
OPERATING EXPENSES				
Salaries and Wages	274,782	227,886	32,570	535,238
Services and Supplies	261,034	228,672	76,672	566,378
Landfill Closure Costs	-	-	30,890	30,890
Depreciation	129,777	104,865	5,838	240,480
Total Operating Expenses	<u>665,593</u>	<u>561,423</u>	<u>145,970</u>	<u>1,372,986</u>
Operating Income (Loss)	299,737	122,762	191,592	614,091
NONOPERATING REVENUE (EXPENSE)				
Interest Income (Loss)	8,661	7,593	(4,236)	12,018
Miscellaneous Revenue	494	-	-	494
Debt Service Interest and Fiscal Charges	(45,459)	(757)	-	(46,216)
Total Nonoperating Revenue (Expenses)	<u>(36,304)</u>	<u>6,836</u>	<u>(4,236)</u>	<u>(33,704)</u>
Changes in Net Position	263,433	129,598	187,356	580,387
Net Position - Beginning of Year	<u>3,214,053</u>	<u>3,478,870</u>	<u>(1,786,643)</u>	<u>4,906,280</u>
Net Position - End of Year	<u><u>\$ 3,477,486</u></u>	<u><u>\$ 3,608,468</u></u>	<u><u>\$(1,599,287)</u></u>	<u><u>\$ 5,486,667</u></u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017**

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Receipts From Customers	\$ 937,575	\$ 675,646	\$ 313,471	\$ 1,926,692
Cash Paid to Suppliers for Goods and Services	(264,027)	(232,511)	(92,447)	(588,985)
Cash Paid to Employees for Services	(259,125)	(216,756)	(34,683)	(510,564)
Net Cash Provided (Used) by Operating Activities	414,423	226,379	186,341	827,143
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Repayments From (to) Other Funds	(4,072)	-	(171,624)	(175,696)
Miscellaneous Income	494	-	-	494
Net Cash Provided (Used) by Noncapital Financing Activities	(3,578)	-	(171,624)	(175,202)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Repayments on Long-Term Debt	(46,000)	(27,687)	-	(73,687)
Interest Repayments Related to Capital Purposes	(45,650)	(1,007)	-	(46,657)
Payments Related to the Acquisition of Capital Assets	(41,820)	(41,925)	(10,481)	(94,226)
Net Cash Provided (Used) by Capital and Related Financing Activities	(133,470)	(70,619)	(10,481)	(214,570)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received or Paid	7,083	6,263	(4,236)	9,110
Net Cash Provided by Investing Activities	7,083	6,263	(4,236)	9,110
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	284,458	162,023	-	446,481
Cash and Cash Equivalents - Beginning of Year	1,004,844	1,008,439	5,002	2,018,285
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,289,302</u>	<u>\$ 1,170,462</u>	<u>\$ 5,002</u>	<u>\$ 2,464,766</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents in Current Assets	\$ 900,374	\$ 710,104	\$ 5,000	\$ 1,615,478
Cash and Cash Equivalents in Restricted Assets	388,928	460,358	2	849,288
Total Cash and Cash Equivalents	<u>\$ 1,289,302</u>	<u>\$ 1,170,462</u>	<u>\$ 5,002</u>	<u>\$ 2,464,766</u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017**

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 299,737	\$ 122,762	\$ 191,592	\$ 614,091
Adjustments to Reconcile Operating Income (Loss) to Cash Flows From Operating Activities:				
Depreciation	129,777	104,865	5,838	240,480
Changes in Assets and Liabilities:				
(Increase) Decrease in:				
Utilities Receivable	(27,755)	(8,539)	(24,091)	(60,385)
Customer Deposits	1,131	-	-	1,131
Increase (Decrease) in:				
Accounts Payable	(2,993)	(3,839)	(1,957)	(8,789)
Accrued Expenses	(3,757)	(4,316)	(3,625)	(11,698)
Liability for Compensated Absences	(5,990)	(5,086)	(759)	(11,835)
Closure/Postclosure Liability	-	-	17,072	17,072
Net Pension Liability	24,273	20,532	2,271	47,076
Net Cash Provided (Used) by Operating Activities	<u>\$ 414,423</u>	<u>\$ 226,379</u>	<u>\$ 186,341</u>	<u>\$ 827,143</u>

See accompanying Notes to 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, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of Reporting Entity

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

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

The City had no blended or discretely presented component units as of June 30, 2017.

B. Basis of Financial Presentation

1. Government-Wide Financial Statements

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

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

When both restricted and unrestricted net positions are available, restricted resources are used first then the unrestricted resources are depleted.

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

2. 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 nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

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

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

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

C. Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when the related cash flows take place. Nonexchange 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

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 inflows.

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

D. Use of Estimates

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

E. Interfund Transactions and Balances

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

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

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

F. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are value at their estimated fair value on the date contributed. Capital assets include public

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

H. Cash and Investments

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

I. Fair Value Measurements

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

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

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

- Quoted prices for similar assets or liabilities in active markets;

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
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- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

J. Receivables

Receivables consist of property taxes, sales taxes and grants from other governmental agencies. As of June 30, 2017, \$9,801 has been provided as an allowance for doubtful accounts because in the opinion of management the amount is not considered collectible.

K. Compensated Absences

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

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

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

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

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

L. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items which qualify for reporting in this category. See pension disclosure Footnote 9. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from intergovernmental revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 2 NET POSITION/FUND BALANCE

Net Position

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

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

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

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

Fund Equity

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

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

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

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

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

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

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

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

NOTE 3 CASH AND INVESTMENTS

At June 30, 2017, total City cash and investments at fair value were as follows:

Petty Cash	\$ 335
Cash in Bank	338,161
LAIF	4,329,953
Money Market Funds	<u>2</u>
Total	<u><u>\$ 4,668,451</u></u>

Total cash and investments at June 30, 2017 were presented on the City’s financial statements as follows:

Cash and Investments in Pool	\$ 3,818,828
Imprest Cash	335
Restricted Assets:	
Cash	<u>849,288</u>
Total	<u><u>\$ 4,668,451</u></u>

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
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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, 2017, the City had the following investments:

	<u>Par</u>	<u>Cost</u>	<u>Fair Value</u>
Investments:			
Money Market Funds	\$ 2	\$ 2	\$ 2
Local Agency Investment Fund (LAIF)	4,329,953	4,329,953	4,329,953
Total Investments	<u>\$ 4,329,955</u>	<u>\$ 4,329,955</u>	<u>\$ 4,329,955</u>

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

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Interest Rate Risk

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

Credit Risk

The City authorizes participation in the following types of investments: FDIC Insured Accounts, Local Agency Investment Fund, and United States Government Securities. All money market funds are funds reserved for the postclosure costs associated with the landfill. The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the City Investment Pool's fair value at June 30, 2017.

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

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, 2017, the recorded amount of the City's deposits was \$338,163 and the bank balance was \$685,408. Of the bank statement balance, \$250,000 was covered by federal depository insurance and \$435,408 was subject to collateralization.

Local Agency Investment Fund

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

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. At June 30, 2017, the City's investment position in LAIF was \$4,329,953 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 \$77,559,119,071. Of that amount, 2.89% was invested in structured notes and asset-backed securities with the remaining 97.11% invested in other non-derivatives financial reports.

Fair Value Measurement

The City categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. All of the City's investments are considered to be Level 1 investments as of June 30, 2017.

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 LOANS AND NOTES RECEIVABLE

During the fiscal year ended June 30, 2012, the City extended a loan to Eastern Plumas Health Care District in the amount of \$348,000. The loan bears initial interest of 1.48% per year to be adjusted annually to reflect LAIF interest rate plus 1%. The term of the loan is 168 months. As of June 30, 2017, the outstanding balance was \$254,798. Additionally, the City has a loan receivable in the amount of \$28,161, which is comprised of loans to individuals for community development. The City also issued Community Development Block Grant (CDBG) loans in the amount of \$51,135. The total loans and notes receivable at June 30, 2017 is \$334,094.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance June 30, 2017</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 746,277	\$ -	\$ -	\$ 746,277
Construction in Progress	670,663	2,292,490	-	2,963,153
Total Capital Assets, Not Being Depreciated	1,416,940	2,292,490	-	3,709,430
Capital Assets, Being Depreciated:				
Infrastructure	10,603,983	-	-	10,603,983
Buildings and Improvements	1,680,115	-	-	1,680,115
Machinery and Equipment	1,275,764	26,970	-	1,302,734
Total Capital Assets, Being Depreciated	13,559,862	26,970	-	13,586,832
Less Accumulated Depreciation for:				
Infrastructure	(4,760,992)	(528,094)	-	(5,289,086)
Buildings and Improvements	(876,832)	(100,575)	-	(977,407)
Machinery and Equipment	(1,071,990)	(54,447)	-	(1,126,437)
Total Accumulated Depreciation	(6,709,814)	(683,116)	-	(7,392,930)
Total Capital Assets, Being Depreciated, Net	6,850,048	(656,146)	-	6,193,902
Governmental Activities Capital Assets, Net	<u>\$ 8,266,988</u>	<u>\$ 1,636,344</u>	<u>\$ -</u>	<u>\$ 9,903,332</u>

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

<u>Business-Type Activities</u>	Balance July 1, 2016	Additions	Transfers and Retirements	Balance June 30, 2017
Capital Assets, Not Being Depreciated:				
Land	\$ 62,844	\$ -	\$ -	\$ 62,844
Construction in Progress	178,367	10,375	-	188,742
Total Capital Assets, Not Being Depreciated	241,211	10,375	-	251,586
Capital Assets, Being Depreciated:				
Buildings and Improvements	8,444,821	-	-	8,444,821
Machinery and Equipment	1,093,907	83,851	(75,601)	1,102,157
Total Capital Assets, Being Depreciated	9,538,728	83,851	(75,601)	9,546,978
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,040,866)	-	-	(3,040,866)
Machinery and Equipment	(994,973)	(240,480)	75,601	(1,159,852)
Total Accumulated Depreciation	(4,035,839)	(240,480)	75,601	(4,200,718)
Total Capital Assets, Being Depreciated, Net	5,502,889	(156,629)	-	5,346,260
Business-Type Activities, Net	<u>\$ 5,744,100</u>	<u>\$ (146,254)</u>	<u>\$ -</u>	<u>\$ 5,597,846</u>

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

Governmental Activities:	
General Government	\$ 30,237
Parks and Recreation	119,952
Public Safety	36,262
Public Works	2,041
Snow Removal	8,354
Streets and Roads	486,270
Total Depreciation Expense - Governmental Activities	<u>\$ 683,116</u>
Business-Type Activities:	
Water Fund	\$ 129,777
Sewer Fund	104,865
Solid Waste Fund	5,838
Total Depreciation Expense - Business-Type Activities	<u>\$ 240,480</u>

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2017 consisted of the following:

<u>Business-Type Activities</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2017</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	\$ 855,000
1977 Emergency Drought Relief Note	1977	11/1/2017	5.00%	\$3,000-\$7,000	325,000	19,000
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	3,500
1998 Sewer System Notes <i>(to Finance Improvements to the City's Sewer System)</i>	1998	6/30/2018	1.80%	\$20,017-\$28,185	<u>478,224</u>	<u>28,185</u>
Total Business-Type Activities					<u>\$ 2,036,224</u>	<u>\$ 905,685</u>

The following is a summary of long-term liabilities transactions for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustment</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:						
Compensated Absences	\$ 46,938	\$ 10,216	\$ (27,436)	\$ -	\$ 29,718	\$ 10,216
Total	<u>\$ 46,938</u>	<u>\$ 10,216</u>	<u>\$ (27,436)</u>	<u>\$ -</u>	<u>\$ 29,718</u>	<u>\$ 10,216</u>
Business-Type Activities:						
Notes Payable	\$ 979,371	\$ -	\$ (73,686)	\$ -	905,685	\$ 76,685
Postclosure Costs	1,230,693	30,890	-	(13,818)	1,247,765	-
Compensated Absences	32,643	7,153	(18,987)	-	20,809	7,153
Total	<u>\$ 2,242,707</u>	<u>\$ 38,043</u>	<u>\$ (92,673)</u>	<u>\$ (13,818)</u>	<u>\$ 2,373,425</u>	<u>\$ 83,838</u>

**CITY OF PORTOLA
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As of June 30, 2017, annual debt service requirements of business-type activities to maturity are as follows:

Year Ending June 30,	Business-Type Activities Notes Payable	
	Principal	Interest
2018	\$ 76,685	\$ 43,821
2019	27,000	41,450
2020	29,000	40,100
2021	30,000	38,650
2022	32,000	37,150
2023-2027	183,000	160,300
2028-2032	233,000	109,850
2033-2037	295,000	45,550
Total	<u>\$ 905,685</u>	<u>\$ 516,871</u>

NOTE 7 INTERFUND TRANSACTIONS AND BALANCES

The composition of interfund balances as of June 30, 2017 is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	STIP	<u>\$ 141,839</u>	To cover cash deficit expected to be recovered through future revenues.

Advances To/From Other Funds:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Solid Waste	<u>\$ 454,238</u>	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, 2017:

Transfer From	Transfer to	Amount
General Fund	Nonmajor Governmental	<u>\$ 442,877</u>

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 FUND DISCLOSURES

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

	Deficit Fund Balance
Enterprise Funds:	
Solid Waste Fund	\$ (1,599,287)
Special Revenue Funds:	
STIP	\$ (144,040)

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

The STIP Fund has a deficit fund balance of \$144,040, which is expected to be eliminated by future revenues and general fund transfers, if needed.

For the year ended June 30, 2017, total expenditures exceeded appropriations for the following funds:

	Amount in Excess of Appropriations
Governmental Funds:	
General Fund	\$ (173,221)

NOTE 9 DEFINED BENEFIT PENSION PLANS

A. General Information about the Pension Plans

1. Plan Description

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

CITY OF PORTOLA
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JUNE 30, 2017

obtained from PERS Executive Offices, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

2. Benefits Provided

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

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

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

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

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

	Miscellaneous Tier I	Miscellaneous Tier II	PEPRA
Hire Date	Prior to July 1, 2012	On or after July 1, 2012	On or after January 2, 2013
Benefit Formula	2.7% at 55	2.0% at 60	2.0% at 62
Benefit Vesting Schedule	5 Years of Credited Service	5 Years of Credited Service	5 Years of Credited Service
Benefit Payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement Age	50	50	52
Monthly Benefits, as % of Eligible Compensation	2.0%-2.7%	1.1%-2.4%	1.0%-2.5%
Required Employee Compensation Rates	8.0%	7.0%	6.3%
Required Employer Compensation Rates	10.007%	10.007%	6.250%
Status	Open	Open	Open

3. Employees Covered

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

4. Contributions

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

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

B. Net Pension Liability

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

1. Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>PEPRA</u>
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varies by Entry Age and Service	
Investment Rate of Return	7.50%(1)	7.50%(1)
Mortality	Derived Using CalPERS' Membership Data for All Funds	

(1) Net of Pension Plan Investment Expenses, Including Inflation.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a April 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

2. Change of Assumption

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate changed from 7.50% (net of administrative expense in 2015) to 7.65% as of the June 30, 2016 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

3. Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

The long-term expected rate of return includes both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of 1%.

The long-term expected real rates by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

C. Changes in the Net Pension Liability

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

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

	1% Decrease <u>6.65%</u>	Current Discount Rate <u>7.65%</u>	1% Increase <u>8.65%</u>
Net Pension Liability	\$ 969,821	\$ 577,890	\$ 253,979

2. Pension Plan Fiduciary Net Position

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

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

For the year ended June 30, 2017, the City recognized pension expense of \$127,132. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 1,237	
Changes in Assumptions		\$ 15,181
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	45,652	57,108
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	79,014	-
City Contributions Subsequent to the Measurement Date	<u>45,970</u>	<u>-</u>
Total	<u>\$ 171,873</u>	<u>\$ 72,289</u>

\$45,970 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts

**CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 3,809
2019	(3,449)
2020	(33,509)
2021	(20,465)
Total	\$ (53,614)

NOTE 10 OTHER POST-EMPLOYMENT BENEFITS

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

NOTE 11 LANDFILL CLOSURE AND POSTCLOSURE CARE COST

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

As of June 30, 2017, the City's estimated liability for postclosure maintenance costs for the landfill was \$1,247,765. This estimate is based on the amount that would be paid if all equipment, facilities, and services required to close and/or monitor the landfills were acquired as of the balance sheet date. The costs for landfill postclosure maintenance costs are based on yearly estimates, reviewed by the California Integrated Waste Management Board, as prepared by TGV Solid Waste, Inc. Actual costs may be higher due to inflation, change in technology, or changes in regulations. The City has applied the annual inflation factor to the liability each year and has reduced the liability by actual expenses incurred.

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

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 RISK MANAGEMENT

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

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

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

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

NOTE 13 COMMITMENTS AND CONTINGENCIES

The City is subject to various lawsuits, inverse condemnation cases, personnel actions, and other actions incidental to the ordinary course of City operations. In the opinion of the City attorney, with the exception of the item discussed below, the total potential claims against the City covered by insurance resulting from litigation would not materially affect the financial statements of the City at June 30, 2017.

State of California

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

The case went to trial October 6-21, 2015. On October 22, 2015, the jury reached a verdict, finding among other things that the state was negligent in the restocking of Lake Davis.

CITY OF PORTOLA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

However, the jury did not award the City any damages. On April 4, 2016, the Court issued a Minute Order – Court Order in which it denied the City's motions for partial judgement notwithstanding the verdict and new trial and ordered the City to pay the state \$270,747 in fees and costs. Although the parties were in discussion about payment, the state threatened legal action if the City did not pay. Subsequently, the City had to pay an additional \$12,684 in court costs and interest. That payment was made and this issue is closed.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PORTOLA
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/
(ASSET) AND RELATED RATIOS AS OF THE MEASUREMENT DATE
YEAR ENDED JUNE 30, 2017**

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

Last 10 Fiscal Years*

	Reporting Date <i>Measurement Date</i>		
	6/30/2017 <u>6/30/2016</u>	6/30/2016 <u>6/30/2015</u>	6/30/2015 <u>6/30/2014</u>
Proportionate Share of the Net Pension Liability	\$ 577,890	\$ 394,917	\$ 237,694
Proportion of the Net Pension Liability	0.017%	0.014%	0.010%
Covered Payroll	\$ 259,958	\$ 317,876	\$ 337,555
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	222.3%	124.2%	70.4%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.87%	79.89%	81.15%

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

**CITY OF PORTOLA
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
YEAR ENDED JUNE 30, 2017**

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

Last 10 Fiscal Years*

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Actuarially Determined Contribution	\$ 48,041	\$ 52,222	\$ 24,089
Contributions in Relation to the Actuarially Determined Contributions	<u>45,970</u>	<u>43,236</u>	<u>41,882</u>
Contributions Deficiency (Excess)	<u>\$ 2,071</u>	<u>\$ 8,986</u>	<u>\$ (17,793)</u>
Covered Payroll	\$ 259,958	\$ 317,876	\$ 337,555
Contributions as a Percentage of Covered Payroll	17.68%	13.60%	12.41%

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

CITY OF PORTOLA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 496,613	\$ 542,613	\$ 549,258	\$ 6,645
Licenses and Permits	65,000	65,000	57,646	(7,354)
Fines, Forfeitures and Penalties	1,000	1,000	345	(655)
Use of Money and Property	11,442	11,442	20,786	9,344
Intergovernmental	252,200	496,700	710,784	214,084
Charges for Services	41,620	41,620	52,814	11,194
Other Revenues	-	-	3,043	3,043
Total Revenues	<u>867,875</u>	<u>1,158,375</u>	<u>1,394,676</u>	<u>236,301</u>
EXPENDITURES				
Current:				
General Government	230,204	261,438	251,588	9,850
Planning and Community Development	116,031	243,881	430,868	(186,987)
Public Safety	216,243	272,943	271,990	953
Public Works	95,628	95,628	76,918	18,710
Parks and Recreation	129,769	129,679	145,426	(15,747)
Total Expenditures	<u>787,875</u>	<u>1,003,569</u>	<u>1,176,790</u>	<u>(173,221)</u>
Excess (Deficiency) of Revenues Over Expenditures	80,000	154,806	217,886	(63,080)
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(294,256)</u>	<u>(442,877)</u>	<u>(442,877)</u>	-
Total Other Financing Sources (Uses)	<u>(294,256)</u>	<u>(442,877)</u>	<u>(442,877)</u>	-
Net Change in Fund Balances	(214,256)	(288,071)	(224,991)	(63,080)
Fund Balances - Beginning of Year	<u>3,170,630</u>	<u>3,170,630</u>	<u>3,170,630</u>	-
Fund Balances - End of Year	<u><u>\$ 2,956,374</u></u>	<u><u>\$ 2,882,559</u></u>	<u><u>\$ 2,945,639</u></u>	<u><u>\$ (63,080)</u></u>

CITY OF PORTOLA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
STATE TRANSPORTATION IMPROVEMENT FUND
FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ 2,300,000	\$ 2,155,757	\$ (144,243)
Total Revenues	<u>-</u>	<u>2,300,000</u>	<u>2,155,757</u>	<u>(144,243)</u>
EXPENDITURES				
Current:				
Streets and Roads	-	2,300,000	2,292,490	7,510
Total Expenditures	<u>-</u>	<u>2,300,000</u>	<u>2,292,490</u>	<u>7,510</u>
Net Change in Fund Balances	-	-	(136,733)	(151,753)
Fund Balances - Beginning of Year	<u>(7,307)</u>	<u>(7,307)</u>	<u>(7,307)</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ (7,307)</u>	<u>\$ (7,307)</u>	<u>\$ (144,040)</u>	<u>\$ (151,753)</u>

**CITY OF PORTOLA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

SUPPLEMENTARY INFORMATION

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NONMAJOR SPECIAL REVENUE FUNDS

**CITY OF PORTOLA
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2017**

	Snow Removal	Gas Tax Funds	Community Development Block Grant	Total
ASSETS				
Cash and Investments	\$ 706	\$ 2,480	\$ 159,182	\$ 162,368
Interest Receivable	-	-	340	340
Notes Receivable, Net	-	-	79,296	79,296
Total Assets	<u>\$ 706</u>	<u>\$ 2,480</u>	<u>\$ 238,818</u>	<u>\$ 242,004</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ -	\$ 586	\$ -	\$ 586
Accrued Salaries and Benefits Payable	706	1,894	215	2,815
Total Liabilities	<u>\$ 706</u>	<u>\$ 2,480</u>	<u>\$ 215</u>	<u>\$ 3,401</u>
Fund Balance:				
Restricted	-	-	238,603	238,603
Unassigned	-	-	-	-
Total Fund Balance	<u>-</u>	<u>-</u>	<u>238,603</u>	<u>238,603</u>
Total Liabilities and Fund Balance	<u>\$ 706</u>	<u>\$ 2,480</u>	<u>\$ 238,818</u>	<u>\$ 242,004</u>

**CITY OF PORTOLA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FISCAL YEAR ENDED JUNE 30, 2017**

	Snow Removal	Gas Tax Funds	Community Development Block Grant	Total
REVENUES				
Use of Money and Property	\$ -	\$ -	\$ 1,182	\$ 1,182
Intergovernmental	76,149	43,850	-	119,999
Total Revenues	<u>76,149</u>	<u>43,850</u>	<u>1,182</u>	<u>121,181</u>
EXPENDITURES				
Current:				
Public Safety	-	26,425	-	26,425
Streets and Roads	332,096	204,355	-	536,451
Planning and Community Development	-	-	51,095	51,095
Total Expenditures	<u>332,096</u>	<u>230,780</u>	<u>51,095</u>	<u>613,971</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(255,947)</u>	<u>(186,930)</u>	<u>(49,913)</u>	<u>(492,790)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	255,947	186,930	-	442,877
Total Other Financing Sources (Uses)	<u>255,947</u>	<u>186,930</u>	<u>-</u>	<u>442,877</u>
Net Change in Fund Balances	-	-	(49,913)	(49,913)
Fund Balances - Beginning of Year	<u>-</u>	<u>-</u>	<u>288,516</u>	<u>288,516</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 238,603</u>	<u>\$ 238,603</u>

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OTHER REPORTS



**INDEPENDENT AUDITORS' 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**

Honorable Mayor and Council Members
Portola, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portola (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The City of Portola's basic financial statements, and have issued our report thereon dated February 6, 2018.

Internal Control over Financial Reporting

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

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

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

Honorable Mayor and Council Members
City of Portola

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Roseville, California
February 6, 2018