

**CITY OF PORTOLA
AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2015**

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CITY OF PORTOLA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portola, California, (the City), as of and for the year ended June 30, 2015, 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, 2015, 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.

Emphasis of Matter

Implementation of New Accounting Standards

As disclosed in the Notes to the Financial Statements, effective as of July 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2016 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



Roseville, California
February 16, 2016

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

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CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

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, 2015. It should be read in conjunction with the City's basic financial statements following this section.

I. FINANCIAL HIGHLIGHTS

A. Government-Wide Financial Analysis

The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$16,742,463:

- \$13,291,525 represents the City's investment in capital assets, less any related outstanding debt used to acquire those assets (net investment in capital assets).
- \$1,026,141 is available for the City's ongoing obligations related to programs with external restrictions (restricted net position).
- \$2,424,797 is available to fund City programs for citizens and debt obligations to creditors (unrestricted net position).

The City's total net position decreased by \$1,111,944 from the prior year:

- The \$631,419 decrease in net position net investment in capital assets represents infrastructure and other additions of \$221,932 less depreciation of \$921,066 and the retirement of related long-term debt of \$67,715.
- The \$3,212 increase in restricted net position represents the change in resources that are subject to external restrictions on their use, and is detailed in the government-wide financial analysis section on page 4.

B. Financial Analysis of the City's Funds

The City's governmental funds combined ending fund balance of \$3,962,037 was an increase of \$141,953 from the prior year ending fund balance of \$3,820,084. Amounts available for spending include restricted, committed, assigned, and unassigned fund balances; these totaled \$3,176,772, or 80% of ending fund balance. Of this amount, \$193,805 is restricted by law or externally imposed requirements. The financial statements presented here include the new requirement to show the liability associated with pension plans. A prior period adjustment was necessary in order to restate the net position of the City. This adjustment is for financial statement purposes.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

A. Government-Wide Financial Statements

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

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

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

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

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

B. Fund Financial Statements

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

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

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

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

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

C. Required Supplementary Information

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

CITY OF PORTOLA

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

III. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Condensed Statement of Net Assets
June 30, 2015 and 2014**

	Governmental		Business-Type		Total		Total	
	Activities		Activities		Total		Dollar	Percent
	2015	2014	2015	2014	2015	2014	Change	Change
Current and other assets	\$ 4,269,071	\$ 4,355,503	\$ 954,869	\$ 2,261,059	\$ 5,223,940	\$ 6,616,562	\$ (1,392,622)	-21%
Capital assets	8,414,385	9,058,002	5,927,707	5,983,223	14,342,092	15,041,225	(699,133)	-5%
Total Assets	12,683,456	13,413,505	6,882,576	8,244,282	19,566,032	21,657,787	(2,091,755)	-10%
Deferred outflows of resources	20,712	-	21,603	-	42,315	-	42,315	100%
Current and other liabilities	67,037	76,004	145,925	185,734	212,962	261,738	(48,776)	-19%
Long term liabilities	137,708	17,638	2,330,171	3,524,004	2,467,879	3,541,642	(1,073,763)	-30%
Total Liabilities	204,745	93,642	2,476,096	3,709,738	2,680,841	3,803,380	(1,122,539)	-30%
Deferred inflows of resources	90,573	-	94,470	-	185,043	-	185,043	100%
Net Investment in capital assets	8,414,385	9,058,002	4,877,140	4,864,942	13,291,525	13,922,944	(631,419)	-5%
Restricted	193,805	192,094	832,336	830,835	1,026,141	1,022,929	3,212	0%
Unrestricted	3,800,660	4,069,767	(1,375,863)	(1,161,233)	2,424,797	2,908,534	(483,737)	-17%
Total Net Position	\$ 12,408,850	\$ 13,319,863	\$ 4,333,613	\$ 4,534,544	\$ 16,742,463	\$ 17,854,407	\$ (1,111,944)	-6%

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 14% of the total net position and may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

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, 2015 and 2014

	Governmental Activities		Business-Type Activities		Total		Total	
	2015	2014	2015	2014	2015	2014	Dollar Change	Percent Change
Program revenues:								
Charges for services	\$ 103,365	\$ 108,844	\$ 1,777,742	\$ 1,751,453	\$ 1,881,107	\$ 1,860,297	\$ 20,810	1%
Operating grants & contributions	429,192	634,364	-	5,000	429,192	639,364	(210,172)	-33%
Capital grants & contributions	-	380,045	-	-	-	380,045	(380,045)	-100%
General revenues:								
Property taxes	213,463	225,855	-	-	213,463	225,855	(12,392)	-5%
Other taxes	290,016	277,271	-	-	290,016	277,271	12,745	5%
Other revenue	49,438	61,248	2,379	1,853	51,817	63,101	(11,284)	-18%
Total Revenues	<u>1,085,474</u>	<u>1,687,627</u>	<u>1,780,121</u>	<u>1,758,306</u>	<u>2,865,595</u>	<u>3,445,933</u>	<u>(580,338)</u>	<u>-17%</u>
Expenses:								
General government	283,477	1,412,251	-	-	283,477	1,412,251	(1,128,774)	-80%
Planning and community development	167,555	404,827	-	-	167,555	404,827	(237,272)	-59%
Public safety	320,580	272,040	-	-	320,580	272,040	48,540	18%
Streets and roads	729,615	813,480	-	-	729,615	813,480	(83,865)	-10%
Public works	77,179	67,729	-	-	77,179	67,729	9,450	14%
Parks and recreation	226,738	212,892	-	-	226,738	212,892	13,846	7%
Water Service	-	-	629,219	623,605	629,219	623,605	5,614	1%
Sewer Service	-	-	489,015	497,399	489,015	497,399	(8,384)	-2%
Solid Waste	-	-	663,239	375,172	663,239	375,172	288,067	77%
Total Expenses	<u>1,805,144</u>	<u>3,183,219</u>	<u>1,781,473</u>	<u>1,496,176</u>	<u>3,586,617</u>	<u>4,679,395</u>	<u>(1,092,778)</u>	<u>-23%</u>
Change in net position before transfers	(719,670)	(1,495,592)	(1,352)	262,130	(721,022)	(1,233,462)	512,440	-42%
Transfers	-	-	-	-	-	-	-	0%
Net Position - July 1	13,319,863	14,815,455	4,534,544	4,272,414	17,854,407	19,087,869	(1,233,462)	-6%
Prior period adjustment	(191,343)	-	(199,579)	-	(390,922)	-	(390,922)	-100%
Net Position - July 1 (restated)	<u>13,128,520</u>	<u>14,815,455</u>	<u>4,334,965</u>	<u>4,272,414</u>	<u>17,463,485</u>	<u>19,087,869</u>	<u>(1,624,384)</u>	<u>-9%</u>
Net Position - June 30	<u>\$ 12,408,850</u>	<u>\$ 13,319,863</u>	<u>\$ 4,333,613</u>	<u>\$ 4,534,544</u>	<u>\$ 16,742,463</u>	<u>\$ 17,854,407</u>	<u>\$ (1,111,944)</u>	<u>-6%</u>

- Governmental activities reported a \$911,013 decrease in net position, and business-type activities reported a decrease of \$200,931, for a net decrease of \$1,111,944.

IV. FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

At June 30, 2015, the City's governmental funds reported combined ending fund balances of \$3,962,037. Approximately 80% of this total amount, or \$3,176,772, of the total fund balance is available to meet the City's ongoing general obligation to citizens and creditors. The remainder of fund balance represents amounts that are not in spendable form and is comprised of long-term notes receivable and advances.

The General Fund is the main operating fund of the City. At June 30, 2015, total fund balance less the non-spendable portion of the General Fund was \$2,752,081 while total fund balance was \$3,537,346. As measures of the general fund's liquidity, it is useful to note that available fund balance represents 323% 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 2015</u>		<u>FY 2014</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	\$ 503,479	39%	\$ 503,126	27%	\$ 353	0%
Licenses and permits	59,848	5%	57,394	3%	2,454	4%
Fines & forfeitures	1,048	0%	2,799	0%	(1,751)	-63%
Use of money & property	43,613	3%	10,586	1%	33,027	312%
Intergovernmental	648,992	50%	1,201,946	64%	(552,954)	-46%
Charges for Services	42,469	3%	48,384	3%	(5,915)	-12%
Other	5,825	0%	50,662	3%	(44,837)	-89%
Total	<u>\$ 1,305,274</u>	<u>100%</u>	<u>\$ 1,874,897</u>	<u>100%</u>	<u>\$ (569,623)</u>	<u>-30%</u>

Significant changes for major revenue sources are explained below.

- Licenses and permits were up slightly due to an increase in building permits
- There was a decrease in the dollar amount from fines and forfeitures brought in by law enforcement activities mainly due to the change in the Community Services Officer program
- The large increase in use of money & property was the repayment of an abatement lien
- Charges for services decreased due to decreased pool revenue
- The large decrease in intergovernmental from 2014 was the Grant funded projects and the ongoing A-15 project through STIP

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

- The decrease in “other” is from insurance recovery that was in the prior year

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

Expenditures by Function Governmental Funds						
	FY 2015		FY 2014		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General government	\$ 286,206	25%	\$ 359,549	21%	\$ (73,343)	-20%
Planning and community development	168,081	14%	631,734	37%	(463,653)	-73%
Public safety	278,905	24%	220,273	13%	58,632	27%
Streets and roads	236,739	20%	327,260	19%	(90,521)	-28%
Public works	73,554	6%	71,478	4%	2,076	3%
Parks and recreation	119,836	10%	105,681	6%	14,155	13%
Total Expenditures	\$ 1,163,321	100%	\$ 1,715,975	100%	\$ (552,654)	-32%

Significant changes for major functions are explained below:

- The significant change between 2014 and 2015 in General Government expenditures is a decrease in legal expense due to litigation.
- Major grant expenditures are included in Planning and Community Development in 2014 including a public facilities CDBG grant, and a grant from Sierra Nevada Conservancy. Those amounts did not occur in 2015.
- Public safety increased as the Fire Department incurred large building maintenance costs on a fire station and also purchased a vehicle.
- Streets and Roads decreased due to less expenditures in this year for the A-15 STIP project and a very light snow removal season
- Parks and Recreation increased due to large pool repairs and an increase in water costs

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. These funds include the following enterprise funds: Water Service Fund, Sewer Service Fund and Solid Waste Fund.

V. GENERAL FUND BUDGETARY HIGHLIGHTS

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

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

Differences between the original budget and the final amended budget are mainly due to the revenue and expenditures from Grant funds during the 2015 fiscal year and from Capital projects that are "reimbursed" and in many cases are not reflected in the original budget figures.

For the fiscal year 2014/2015, General Fund revenues were more than budget by \$65,243 and General Fund expenditures were \$3,859 less than budgeted. The City budgeted \$98,646 for the use of fund balance.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The change in capital assets for the Governmental Activities totaled \$643,617, net of depreciation for an ending balance of \$8,414,385.

Business-type capital assets for the fiscal year ending June 30, 2015, were \$5,927,707, net of depreciation. This is a decrease in Capital Assets of \$55,516. 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, 2015, the City had long-term debt outstanding of \$1,050,567. This is a decrease over June 30, 2014 of \$84,514. The entire long-term debt was attributable to Business-type activities. There is no long-term debt in the Governmental Activities.

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

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

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

The budget process began as usual in February with City staff preparing draft level of services budgets for each area of the City. In March, City staff, the general public and City Council participated in a FY 2015-2016 pre-budget preparation Goal Setting Workshop. The budget process continued through March, April and May with revisions to the level of services budgets, additions of "add ons" and discussion of what would be needed to provide a balanced budget. In the two years leading up to the budget payroll expenses had been reduced overall by 24% by combining the City Manager and City Administrative Services Manager positions in to one position and not filling a vacant public works position. The former City Manager retired as of June 30, 2013 and the funding for a new City Manager was included in the 2013-2014 budget as well as additional funding to be used for staffing changes as needed. During the 2013-2014 year the new City Manager left and current staff performed the duties needed in place of a City Manager. At the very end of the 2013-2014 Fiscal year the current City Manager was hired. Budgets once again include funding for a full-time City Manager and an emphasis on economic development. The 2015-2016 budget did not make changes to the employee benefits but did include step increases and a 1.6% Cost of living raise. In order for the City Council to be able to make informed priority decisions a report on the Fund Balances-Reserves for each of the City's budgeted funds was evaluated and prepared for City Council assessment. The critical need to maintain reserves is always in the forefront of finance discussions. The City has been able to fund major projects in advance of reimbursements because of the reserves that it currently maintains.

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

The Budget utilizes a projected \$ 98,646 of the General Fund's fund balance to eliminate a projected shortfall of revenues over expenditures in the General Fund. The 2015-2016 General Fund original budgeted expenditures are \$961,177 compared to \$936,390 for 2014-2015. As always close attention needs to be paid to budget amendments and the use of additional fund balance.

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

With regard to the City Enterprise Funds the effects and impacts of changing state and federal government regulation has caused their Net Assets to decline. The Water fund has had a deficit cash balance (with the exception of monies that are restricted for specific purposes) for quite some time but is now climbing out of the deficit. A rate increase equivalent to the cost of living was adopted in this budget and there is hope that it will help the Water and Sewer funds continue to recover. The challenge the Enterprise funds face is the aging infrastructure in the City. With no reserves for major repairs it may take some time for rates to cover the expenditures. The Solid Waste Fund had a positive cash balance but that amount is used each year to repay money borrowed from the General Fund from years past when rates were not sufficient to cover expenses. In the 2014-2015 fiscal year there was an increase in the amount that Solid Waste owes the General Fund by the difference between the money set aside for landfill closure and the final cost of the closure. It has been an important goal of the City to close the landfill with the long range potential to decrease fees. 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, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Assets			
Cash and investments	\$ 2,713,471	\$ 515,502	\$ 3,228,973
Restricted Assets:			
Restricted cash	-	837,660	837,660
Imprest cash	335	--	335
Accounts receivable	53,424	220,758	274,182
Interest receivable	2,047	789	2,836
Due from other governments	84,529	165,425	249,954
Loans and notes receivable	630,000	-	630,000
Internal balances	785,265	(785,265)	-
Capital Assets:			
Nondepreciable	1,076,625	231,852	1,308,477
Depreciable, net	7,337,760	5,695,855	13,033,615
Total Assets	12,683,456	6,882,576	19,566,032
Deferred outflows of resources			
Deferred pensions	20,712	21,603	42,315
Liabilities			
Accounts payable	25,663	23,516	49,179
Accrued salaries and benefits payable	13,450	13,917	27,367
Deposits	12,431	15,203	27,634
Unearned revenue	-	5,000	5,000
Accrued interest	-	3,767	3,767
Long-Term Liabilities:			
Portion due or payable within one year:			
Compensated absences	15,493	13,326	28,819
Notes payable	-	71,196	71,196
Portion due or payable after one year:			
Compensated absences	21,365	18,375	39,740
Notes payable	-	979,371	979,371
Liability for landfill closure and postclosure	-	1,211,074	1,211,074
Net pension liability	116,343	121,351	237,694
Total Liabilities	204,745	2,476,096	2,680,841
Deferred inflows of resources			
Deferred pensions	90,573	94,470	185,043
Net Position			
Net investment in capital assets	8,414,385	4,877,140	13,291,525
Restricted:			
Planning and community development	118,734	-	118,734
General government	75,071	-	75,071
Capital improvements	-	742,099	742,099
Debt service	-	90,237	90,237
Unrestricted	3,800,660	(1,375,863)	2,424,797
Total Net Position	\$ 12,408,850	\$ 4,333,613	\$ 16,742,463

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

CITY OF PORTOLA

Statement of Activities
For the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Fees, Fines and Charges for Services	Capital Grants and Contributions
Primary Government:			
Governmental Activities:			
General government	\$ 283,477	\$ 42,842	\$ 139,837
Planning and community development	167,555	1,411	51,081
Public safety	320,580	41,643	133,443
Streets and roads	729,615	-	103,831
Public works	77,179	-	-
Parks and recreation	226,738	17,469	1,000
Total Governmental Activities	<u>1,805,144</u>	<u>103,365</u>	<u>429,192</u>
Business-Type Activities:			
Water Service	629,219	840,689	-
Sewer Service	489,015	615,302	-
Solid Waste	663,239	321,751	-
Total Business-Type Activities:	<u>1,781,473</u>	<u>1,777,742</u>	<u>-</u>
Total City of Portola	<u>\$ 3,586,617</u>	<u>\$ 1,881,107</u>	<u>\$ 429,192</u>

General Revenues:

Taxes:

Property taxes

Sales and use taxes

Other

Unrestricted interest and investment earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - July 1

Net pension liability adjustment

Net Position - July 1 restated

Net Position - June 30

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (100,798)	\$ -	\$ (100,798)
(115,063)	-	(115,063)
(145,494)	-	(145,494)
(625,784)	-	(625,784)
(77,179)	-	(77,179)
(208,269)	-	(208,269)
(1,272,587)	-	(1,272,587)
-	211,470	211,470
-	126,287	126,287
-	(341,488)	(341,488)
-	(3,731)	(3,731)
(1,272,587)	(3,731)	(1,276,318)
213,463	-	213,463
230,899	-	230,899
59,117	-	59,117
43,613	203	43,816
5,825	2,176	8,001
552,917	2,379	555,296
(719,670)	(1,352)	(721,022)
13,319,863	4,534,544	17,854,407
(191,343)	(199,579)	(390,922)
13,128,520	4,334,965	17,463,485
\$ 12,408,850	\$ 4,333,613	\$ 16,742,463

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

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**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

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CITY OF PORTOLA

Balance Sheet
Governmental Funds
June 30, 2015

	General	Other Governmental Funds	Total
Assets			
Cash and investments	\$ 2,326,635	\$ 386,836	\$ 2,713,471
Imprest cash	335	-	335
Notes receivable	530,849	99,151	630,000
Accounts receivable	53,424	-	53,424
Interest receivable	1,825	222	2,047
Due from other funds	45,180	-	45,180
Advances to other funds	785,265	-	785,265
Due from other governmental agencies	84,529	-	84,529
Total Assets	<u>\$ 3,828,042</u>	<u>\$ 486,209</u>	<u>\$ 4,314,251</u>
Liabilities			
Accounts payable	\$ 15,035	\$ 16,338	\$ 31,373
Accrued salaries and benefits payable	7,740	-	7,740
Deposits from others	12,431	-	12,431
Due to other funds	-	45,180	45,180
Total Liabilities	<u>35,206</u>	<u>61,518</u>	<u>96,724</u>
Deferred Inflows of Resources			
Unavailable revenue	255,490	-	255,490
Total Deferred Inflows of Resources	<u>255,490</u>	<u>-</u>	<u>255,490</u>
Fund Balance			
Nonspendable	785,265	-	785,265
Restricted	75,071	118,734	193,805
Committed	98,646	-	98,646
Assigned	-	351,137	351,137
Unassigned	2,578,364	(45,180)	2,533,184
Total Fund Balance	<u>3,537,346</u>	<u>424,691</u>	<u>3,962,037</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 3,828,042</u>	<u>\$ 486,209</u>	<u>\$ 4,314,251</u>

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

CITY OF PORTOLA

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activities
June 30, 2015

Fund Balance - total governmental funds (from previous page)	\$ 3,962,037
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	8,414,385
Deferred outflows of resources as reported in the Statement of Net Position	20,712
Deferred inflows of resources as reported in the Statement of Net Position	(90,573)
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	255,490
Compensated absences	(36,858)
Net pension liability	<u>(116,343)</u>
Net position of governmental activities	<u>\$ 12,408,850</u>

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

CITY OF PORTOLA

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Taxes	\$ 503,479	\$ -	\$ 503,479
Licenses and permits	59,848	-	59,848
Fines, forfeitures and penalties	1,048	-	1,048
Use of money and property	43,357	256	43,613
Intergovernmental	545,161	103,831	648,992
Charges for services	42,469	-	42,469
Other revenues	5,825	-	5,825
Total Revenues	<u>1,201,187</u>	<u>104,087</u>	<u>1,305,274</u>
 Expenditures			
Current:			
General government	286,206	-	286,206
Planning and community development	120,080	48,001	168,081
Public safety	253,177	25,728	278,905
Streets and roads	-	236,739	236,739
Public works	73,554	-	73,554
Parks and recreation	119,836	-	119,836
Total Expenditures	<u>852,853</u>	<u>310,468</u>	<u>1,163,321</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>348,334</u>	<u>(206,381)</u>	<u>141,953</u>
 Other Financing Sources (Uses)			
Transfers in	-	138,826	138,826
Transfers out	(138,826)	-	(138,826)
Total Other Financing Sources (Uses)	<u>(138,826)</u>	<u>138,826</u>	<u>-</u>
 Net Change in Fund Balances	209,508	(67,555)	141,953
 Fund Balances, Beginning of Year	<u>3,327,838</u>	<u>492,246</u>	<u>3,820,084</u>
 Fund Balances, End of Year	<u>\$ 3,537,346</u>	<u>\$ 424,691</u>	<u>\$ 3,962,037</u>

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

CITY OF PORTOLA

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2015

Net change to fund balance - total governmental funds	\$	141,953
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 41,184	
Less: current year depreciation	<u>(684,801)</u>	(643,617)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(219,800)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Change in compensated absences		(3,345)
Change in accrued net pension liability		<u>5,139</u>
Change in net position of governmental activities	\$	<u><u>(719,670)</u></u>

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

CITY OF PORTOLA

Statement of Fund Net Position
Proprietary Funds
June 30, 2015

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Assets				
Current Assets:				
Cash and investments	\$ 181,776	\$ 328,726	\$ 5,000	\$ 515,502
Interest receivable	332	457	--	789
Account receivable	98,429	84,290	38,039	220,758
Due from other governmental agencies	165,425	-	-	165,425
Restricted Assets:				
Restricted cash	384,913	452,747	-	837,660
Total Current Assets	830,875	866,220	43,039	1,740,134
Noncurrent Assets:				
Capital Assets:				
Non depreciable	169,008	31,422	31,422	231,852
Depreciable, net	3,084,657	2,581,636	29,562	5,695,855
Total Noncurrent Assets	3,253,665	2,613,058	60,984	5,927,707
Total Assets	4,084,540	3,479,278	104,023	7,667,841
Deferred Outflows - Pension	10,369	9,789	1,445	21,603
Liabilities				
Current Liabilities:				
Accounts payable	7,079	10,162	6,275	23,516
Accrued salaries and benefits payable	6,828	6,215	874	13,917
Deposits	15,203	-	-	15,203
Unearned revenue	-	-	5,000	5,000
Accrued interest	3,767	-	-	3,767
Liability for compensated absences	6,530	5,914	882	13,326
Notes payable - current portion	44,000	27,196	-	71,196
Total Current Liabilities	83,407	49,487	13,031	145,925
Noncurrent Liabilities				
Liability for compensated absences	9,005	8,155	1,215	18,375
Advances from other funds	-	-	785,265	785,265
Landfill closure and postclosure	-	-	1,211,074	1,211,074
Notes payable	923,500	55,871	-	979,371
Net pension liability	58,247	54,988	8,116	121,351
Total Noncurrent Liabilities	990,752	119,014	2,005,670	3,115,436
Total Liabilities	1,074,159	168,501	2,018,701	3,261,361
Deferred Inflows - Pension	45,345	42,808	6,317	94,470
Net Position				
Net investment in capital assets	2,286,165	2,529,991	60,984	4,877,140
Restricted:				
Debt service	90,237	-	-	90,237
Facility fees	294,676	252,461	-	547,137
Capital projects	-	194,962	-	194,962
Unrestricted	304,327	300,344	(1,980,534)	(1,375,863)
Total Net Position	\$ 2,975,405	\$ 3,277,758	\$(1,919,550)	\$4,333,613

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

CITY OF PORTOLA

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid</u>	<u>Total</u>
	<u>Service</u>	<u>Service</u>	<u>Waste</u>	
Operating Revenues				
Fines	\$ 18,273	\$ 13,047	\$ 5,107	\$ 36,427
Charges for services	822,416	602,255	316,644	1,741,315
Total Operating Revenues	<u>840,689</u>	<u>615,302</u>	<u>321,751</u>	<u>1,777,742</u>
Operating Expenses				
Salaries and wages	211,060	196,293	29,357	436,710
Services and supplies	239,461	187,412	67,290	494,163
Landfill closure costs	-	-	562,406	562,406
Depreciation	128,748	103,330	4,186	236,264
Total Operating Expenses	<u>579,269</u>	<u>487,035</u>	<u>663,239</u>	<u>1,729,543</u>
Operating Income (Loss)	<u>261,420</u>	<u>128,267</u>	<u>(341,488)</u>	<u>48,199</u>
Non-Operating Revenue (Expenses)				
Interest income (loss)	1,708	1,301	(2,806)	203
Miscellaneous revenue	538	538	1,100	2,176
Debt service interest and fiscal charges	(49,950)	(1,980)	-	(51,930)
Total Non-Operating Revenue (Expenses)	<u>(47,704)</u>	<u>(141)</u>	<u>(1,706)</u>	<u>(49,551)</u>
Changes in Net Position	213,716	128,126	(343,194)	(1,352)
Net Position, Beginning of Year	2,857,485	3,240,068	(1,563,009)	4,534,544
Net pension liability adjustment	(95,796)	(90,436)	(13,347)	(199,579)
Net Position, Beginning of Year Restated	<u>2,761,689</u>	<u>3,149,632</u>	<u>(1,576,356)</u>	<u>4,334,965</u>
Net Position, End of Year	<u>\$ 2,975,405</u>	<u>\$ 3,277,758</u>	<u>\$ (1,919,550)</u>	<u>\$ 4,333,613</u>

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

CITY OF PORTOLA

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid</u>	
	<u>Service</u>	<u>Service</u>	<u>Waste</u>	<u>Total</u>
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 865,504	\$ 612,064	\$ 329,054	\$ 1,806,622
Cash paid to suppliers for goods and services	(238,198)	(191,194)	(1,876,806)	(2,306,198)
Cash paid to employees for services	(220,328)	(195,436)	(29,217)	(444,981)
	<u>406,978</u>	<u>225,434</u>	<u>(1,576,969)</u>	<u>(944,557)</u>
Net Cash Provided (Used) by Operating Activities				
Cash Flows From Noncapital Financing Activities:				
Cash repayments from (to) other funds	74	-	507,154	507,228
Miscellaneous income	538	538	-	1,076
Cash received from grants	-	-	1,100	1,100
	<u>612</u>	<u>538</u>	<u>508,254</u>	<u>509,404</u>
Net Cash Provided (Used) by Noncapital Financing Activities				
Cash Flows From Capital and Related Financing Activities:				
Principal repayments on long-term debt	(41,000)	(26,714)	(16,800)	(84,514)
Interest repayments related to capital purposes	(66,192)	(8,678)	-	(74,870)
Payments related to the acquisition of capital assets	(174,746)	(6,002)	-	(180,748)
	<u>(281,938)</u>	<u>(41,394)</u>	<u>(16,800)</u>	<u>(340,132)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities				
Cash Flows From Investing Activities:				
Interest received or paid	1,586	1,136	(2,806)	(84)
Net Cash Provided (Used) by Investing Activities	<u>1,586</u>	<u>1,136</u>	<u>(2,806)</u>	<u>(84)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	127,238	185,714	(1,088,321)	(775,369)
Cash and Cash Equivalents, Beginning of Year	<u>439,451</u>	<u>595,759</u>	<u>1,093,321</u>	<u>2,128,531</u>
Cash and Cash Equivalents, End of Year	<u>\$ 566,689</u>	<u>\$ 781,473</u>	<u>\$ 5,000</u>	<u>\$ 1,353,162</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:				
Cash and cash equivalents in current assets	\$ 181,776	\$ 328,726	\$ 5,000	\$ 515,502
Cash and cash equivalents in restricted assets	384,913	452,747	-	837,660
Total Cash and Cash Equivalents	<u>\$ 566,689</u>	<u>\$ 781,473</u>	<u>\$ 5,000</u>	<u>\$ 1,353,162</u>

continued

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

CITY OF PORTOLA

Statement of Cash Flows (continued)
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Solid</u>	
	<u>Service</u>	<u>Service</u>	<u>Waste</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 261,420	\$ 128,267	\$ (341,488)	\$ 48,199
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	128,748	103,330	4,186	236,264
Changes in assets and liabilities:				
(Increase) decrease in:				
Utilities receivable	24,815	-	-	24,815
Accounts receivable	-	(3,238)	2,303	(935)
Unearned revenue			5,000	5,000
Customer deposits	(10,855)	-	-	(10,855)
Increase (decrease) in:				
Accounts payable	1,263	(3,782)	1,450	(1,069)
Accrued expenses	1,362	1,039	69	2,470
Liability for compensated absences	2,798	2,247	430	5,475
Closure/postclosure liability	-	-	(1,248,560)	(1,248,560)
Net pension liability	(2,573)	(2,429)	(359)	(5,361)
	<u>(2,573)</u>	<u>(2,429)</u>	<u>(359)</u>	<u>(5,361)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 406,978</u>	<u>\$ 225,434</u>	<u>\$ (1,576,969)</u>	<u>\$ (944,557)</u>

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

NOTES TO FINANCIAL STATEMENTS

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

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

A. Description of Reporting Entity

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14.

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

The City had no blended or discretely presented component units as of June 30, 2015.

B. Basis of Financial Presentation

Government-Wide Financial Statements

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

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

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

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

Fund Financial Statements

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

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

The City reports the following major governmental funds:

- The *General Fund* is the primary operating fund of the City. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.

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

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

C. **Basis of Accounting**

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, expenditures are recorded when the related liability is incurred except the unmatured interest on long-term debt, and expenses related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources. Revenues are recorded when they are both measurable and available to finance expenditures during the fiscal period. Property and sales taxes, interest, state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Revenues earned but not received within sixty days after the end of the accounting period, on the other hand, are recorded as receivables and deferred revenues, in accordance with GASB 34.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (continued)

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

D. Use of Estimates

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

E. Interfund Transactions and Balances

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

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

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

F. Capital Assets

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

The estimated useful lives are as follows:

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Tax

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

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

H. Cash and Investments

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

I. Receivables

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

J. Compensated Absences

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

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

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

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

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

K. Pensions

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

L. **New Accounting Pronouncements**

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for periods beginning after June 15, 2014. The principal objective of this statements is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with pensions. An additional objective is to improve the information provided in government financial reports about pension-related financial support provided by certain non-employer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, is effective for periods beginning after December 15, 2013.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, is effective for periods beginning after December 15, 2013.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, is effective for periods beginning after June 15, 2014.

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

Net Position

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

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

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

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

Fund Equity

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

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

Fund Equity (continued)

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, 2015, total City cash and investments at fair value were as follows:

Petty cash	\$	335
Cash in bank		387,656
LAIF		3,292,316
Money market funds		<u>386,661</u>
	\$	<u><u>4,066,968</u></u>

Total cash and investments at June 30, 2015 were presented on the City’s financial statements as follows:

Cash and investments in pool	\$	3,228,973
Imprest cash		335
Restricted Assets:		
Cash		<u>837,660</u>
	\$	<u><u>4,066,968</u></u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

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, 2015, the City had the following investments:

Investments	<u>Par</u>	<u>Cost</u>	<u>Fair Value</u>	<u>WAM (Years)</u>
Money market funds	\$ 386,661	\$ 386,661	\$ 386,661	
Local Agency Investment Fund (LAIF)	<u>3,292,316</u>	<u>3,292,316</u>	<u>3,292,316</u>	
Total Investments	<u><u>\$ 3,678,977</u></u>	<u><u>\$ 3,678,977</u></u>	<u><u>\$ 3,678,977</u></u>	-

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

Interest Rate Risk

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

Credit Risk

The City authorizes participation in the following types of investments: FDIC Insured Accounts, Local Agency Investment Fund, and United States Government Securities. All money market funds are funds reserved for the closure/postclosure costs associated with the landfill.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the City Investment Pool's fair value at June 30, 2015.

	<u>Moody's</u>	<u>% of Portfolio</u>
Money market funds	Unrated	10.51%
Local Agency Investment Fund (LAIF)	Unrated	<u>89.49%</u>
Total Pooled Investments		<u>100.00%</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2015, the recorded amount of the City's deposits was \$387,991 and the bank balance was \$451,913. Of the bank statement balance \$250,000 was covered by federal depository insurance and \$201,913 was subject to collateralization.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

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, 2015, the City's investment position in LAIF was \$3,292,316 which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in PMIA on that day was \$69.6 billion. Of that amount, 2.08% was invested in structured notes and asset-backed securities with the remaining 97.92% invested in other non-derivative financial products.

NOTE 4: LOANS AND NOTES RECEIVABLE

During the fiscal year ended June 30, 2012, the City extended a loan to Eastern Plumas Health Care District in the amount of \$348,000. The loan bears initial interest of 1.48% per year to be adjusted annually to reflect LAIF interest rate plus 1 percent. The term of the loan is 168 months. As of June 30, 2015, the outstanding balance was \$305,714. Additionally, the City has three loans receivable in the amount of \$48,016, which are comprised of loans to individuals for community development. The City also issued Community Development Block Grant (CDBG) loans in the amount of \$51,135. The final receivable is related to the Community Development Block Grant reimbursement request of \$225,135. The total loans and notes receivable at June 30, 2015 is \$630,000.

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Transfers & Adjustments	Balance June 30, 2015
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 746,277	\$ -	\$ -	\$ 746,277
Construction in progress	298,357	31,991	-	330,348
Total capital assets, not being depreciated	1,044,634	31,991	-	1,076,625
Capital assets, being depreciated:				
Infrastructure	10,603,983	-	-	10,603,983
Buildings and improvements	1,476,458	-	-	1,476,458
Machinery and equipment	1,266,960	9,193	-	1,276,153
Total capital assets, being depreciated	13,347,401	9,193	-	13,356,594
Less accumulated depreciation for:				
Infrastructure	(3,704,804)	(528,094)	-	(4,232,898)
Buildings and improvements	(691,631)	(86,998)	-	(778,629)
Machinery and equipment	(937,598)	(69,709)	-	(1,007,307)
Total accumulated depreciation	(5,334,033)	(684,801)	-	(6,018,834)
Total capital assets, being depreciated, net	8,013,368	(675,608)	-	7,337,760
Governmental activities capital assets, net	\$ 9,058,002	\$ (643,617)	\$ -	\$ 8,414,385

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 5: CAPITAL ASSETS (CONTINUED)

	Balance July 1, 2014	Additions	Transfers & Adjustments	Balance June 30, 2015
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 62,844	\$ -	\$ -	\$ 62,844
Construction in progress	-	169,008	-	169,008
Total capital assets, not being depreciated	<u>62,844</u>	<u>169,008</u>	<u>-</u>	<u>231,852</u>
Capital assets, being depreciated:				
Buildings and improvements	8,418,575	-	-	8,418,575
Machinery and equipment	1,091,104	11,740	-	1,102,844
Total capital assets, being depreciated	<u>9,509,679</u>	<u>11,740</u>	<u>-</u>	<u>9,521,419</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,649,052)	(195,463)	-	(2,844,515)
Machinery and equipment	(940,248)	(40,801)	-	(981,049)
Total accumulated depreciation	<u>(3,589,300)</u>	<u>(236,264)</u>	<u>-</u>	<u>(3,825,564)</u>
Total capital assets, being depreciated, net	<u>5,920,379</u>	<u>(224,524)</u>	<u>-</u>	<u>5,695,855</u>
Business-type activities, net	<u>\$ 5,983,223</u>	<u>\$ (55,516)</u>	<u>\$ -</u>	<u>\$ 5,927,707</u>

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

Governmental Activities	
General government	\$ 29,375
Parks and recreation	52,016
Public safety	2,041
Public works	486,136
Snow removal	8,331
Streets and roads	106,902
Total Depreciation Expense - Governmental Activities	<u>\$ 684,801</u>
Business-Type Activities	
Water Fund	\$ 128,748
Sewer Fund	103,330
Solid Waste Fund	4,186
Total Depreciation Expense - Business-Type Activities	<u>\$ 236,264</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 6: LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2015 consisted of the following:

	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2015</u>
<u>Business-Type Activities</u>						
1997 Special Assessment Water Improvement Note Payable <i>(to finance improvements to the City's water system)</i>	1997	5/1/2037	5.00%	\$5,000 - \$25,000	\$ 1,173,000	\$ 904,000
1997 Emergency Dought Relief Note	1977	11/1/2017	5.00%	\$3,000 - \$7,000	325,000	54,000
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	9,500
1998 Sewer System Notes <i>(to finance improvements to the City's sewer system)</i>	1998	6/30/2018	1.80%	\$20,071 - \$28,185	<u>478,224</u>	<u>83,067</u>
Total Business-Type Activities					<u>\$ 2,036,224</u>	<u>\$ 1,050,567</u>

The following is a summary of long-term liabilities transactions for the year ended June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 33,513	\$ 15,493	\$ 12,148	\$ 36,858	\$ 15,493
Total	<u>\$ 33,513</u>	<u>\$ 15,493</u>	<u>\$ 12,148</u>	<u>\$ 36,858</u>	<u>\$ 15,493</u>
Business-type Activities:					
Notes payable	\$ 1,135,081	-	\$ 84,514	\$ 1,050,567	\$ 71,196
Closure and postclosure costs	2,459,634	-	1,248,560	1,211,074	-
Compensated absences	<u>26,226</u>	<u>13,326</u>	<u>7,851</u>	<u>31,701</u>	<u>13,326</u>
Total	<u>\$ 3,620,941</u>	<u>\$ 13,326</u>	<u>\$ 1,340,925</u>	<u>\$ 2,293,342</u>	<u>\$ 84,522</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

As of June 30, 2015, annual debt service requirements of business-type activities to maturity are as follows:

Year Ending June 30	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2016	\$ 71,196	\$ 49,373
2017	73,686	46,657
2018	76,685	43,821
2019	27,000	41,450
2020	29,000	40,100
2021-2025	167,000	177,400
2026-2030	211,000	131,500
2031-2035	269,000	73,100
2036-2037	126,000	9,500
Total	<u>\$ 1,050,567</u>	<u>\$ 612,901</u>

NOTE 7: INTERFUND TRANSACTIONS AND BALANCES

The composition of interfund balances as of June 30, 2015 is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Governmental	\$ 45,180	To cover cash deficit expected to be recovered through future revenues.
		<u>\$ 45,180</u>	

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Solid Waste	\$ 785,265	To cover cash deficit expected to be recovered through future revenues.
		<u>\$ 785,265</u>	

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 7: INTERFUND TRANSACTIONS AND BALANCES (CONTINUED)

Transfers:

Transfers are used to subsidize various City operations. The following schedule briefly summarizes the City's transfer activity for the fiscal year ended June 30, 2015:

<u>Transfer From</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Nonmajor Governmental	\$ 138,826
		<u>\$ 138,826</u>

NOTE 8: DEFICIT FUND BALANCE/NET POSITION

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

Enterprise Funds:	
Solid Waste Fund	\$ (1,919,550)
Special Revenue Funds:	
STIP	(45,180)

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 \$45,180, which is expected to be eliminated by future revenues and general fund transfers, if needed.

NOTE 9: DEFINED BENEFIT PENSION PLANS

A. General Information about the Pension Plans

Plan Description

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

A. General Information about the Pension Plans (continued)

Benefits Provided

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

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

- *service* is CalPERS credited service, for members with less than 10 years of service or greater than 18.518 years of service; of
- *service* is CalPERS credited service plus the additional number of years that the member would have worked until age 60, for members with at least 10 years but not more than 18.518 years of service.

Death benefits are based upon a variety of factors including whether the participant was retired or not.

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

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous Tier I	Miscellaneous Tier II	PEPRA
	Prior to July 1, 2012	On or after July 1, 2012	On or after January 2, 2013
Hire Date			
Benefit formula	2.7%@55 5 years of credited service	2.0%@60 5 years of credited service	2.0%@62 5 years of credited service
Benefit vesting schedule			
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Monthly benefits, as % of eligible compensation	2.0%-2.7%	1.1%-2.4%	1.0%-2.5%
Required employee contribution rates	8.0%	7.0%	6.25%
Required employer contribution rates	10.007%	10.007%	6.25%
Status	Open	Open	Open

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

A. General Information about the Pension Plans (continued)

Benefits Provided (continued)

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.

Contributions

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

B. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	PEPRA
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal	
Actuarial Assumptions:		
Discount Rate	7.50%	7.50%
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, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

B. Net Pension Liability (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.5 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

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

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

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

B. Net Pension Liability (continued)

Discount Rate (continued)

Asset Class	Strategic Allocation	Real Return Years 1-10 ⁽¹⁾	Real Return Years 11-60 ⁽²⁾
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Foresland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

⁽¹⁾ An expected inflation rate of 2.5% used for this period

⁽²⁾ An expected inflation rate of 3.0% used for this period

C. Changes in the Net Pension Liability

Information regarding the changes in the Net Pension Liability for the City's Miscellaneous Plans is not available for cost-sharing multiple-employer defined benefit pension plans.

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:

	Miscellaneous	PEPRA
1% Decrease	6.50%	6.50%
Net Pension Liability	\$ 586,054	\$ 8
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$ 237,690	\$ 4
1% Increase	8.50%	8.50%
Net Pension Liability	\$ (51,420)	\$ 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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

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

For the year ended June 30, 2015, the City recognized pension expense of \$(10,500). 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.

Change in net pension liability	\$ (192,913)
Contributions	39,685
Deferral for subsequent contributions	(42,315)
Deferred inflow - excess investment earnings	185,043
Pension expense	<u><u>\$ (10,500)</u></u>

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings		
on pension plan investments	-	164,048
Adjustment due to differences in proportions		20,995
City contributions subsequent to the measurement date	<u>42,315</u>	<u>-</u>
Total	<u><u>\$ 42,315</u></u>	<u><u>\$ 185,043</u></u>

\$42,315 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

NOTE 9: DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

Year Ending June 30,	Deferred Outflows/(Inflows) of Resources
2016	\$ (48,509)
2017	(48,509)
2018	(47,010)
2019	(41,015)
Total	\$ (185,043)

A prior period adjustment of \$390,922 was made to decrease both governmental and business-type activities' beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of the net pension liability.

The restatement of beginning net position is summarized as follows:

	Governmental Activities	Business-type Activities	Total
Net position at July 1, 2014, as previously stated	\$ 13,319,863	\$ 4,534,544	\$ 17,854,407
Net pension liability adjustment	(191,343)	(199,579)	(390,922)
Net position at July 1, 2014, as restated	\$ 13,128,520	\$ 4,334,965	\$ 17,463,485

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.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2015

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

As of June 30, 2015, the City's estimated liability for postclosure maintenance costs for the landfill was \$1,211,074. This estimate is based on the amount that would be paid if all equipment, facilities, and services required to close and/or monitor the landfills were acquired as of the balance sheet date. The costs for landfill postclosure maintenance costs are based on yearly estimates, reviewed by the California Integrated Waste Management Board, as prepared by TGV Solid Waste, Inc. Actual costs may be higher due to inflation, change in technology, or changes in regulations. The City has applied the annual inflation factor to the liability each year and has reduced the liability by actual expenses incurred.

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

NOTE 12: RISK MANAGEMENT

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

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

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

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

NOTE 13: CONTINGENT LIABILITIES

The City is subject to various lawsuits, inverse condemnation cases, personnel actions, and other actions incidental to the ordinary course of City operations. In the opinion of the City attorney, the total potential claims against the City covered by insurance resulting from litigation would not materially affect the financial statements of the City at June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PORTOLA

Notes to Required Supplementary Information
For the Year Ended June 30, 2015

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

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

Last 10 Fiscal Years*

	FY 2014
Miscellaneous Plan	
City's proportion of the net pension liability (asset)	0.00382%
City's proportionate share of the net pension liability (asset)	\$ 237,690
City's covered-employee payroll	\$ 462,162
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	51.43%
City's proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	90.95%
City's proportionate share of aggregate employer contributions	\$ 64,582
PEPRA Miscellaneous Plan	
City's proportion of the net pension liability (asset)	0.00000%
City's proportionate share of the net pension liability (asset)	\$ 4
City's covered-employee payroll	\$ 117,896
percentage of its covered-employee payroll	0.00%
the plan's total pension liability	84.00%
City's proportionate share of aggregate employer contributions	\$ 1

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

CITY OF PORTOLA

Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Schedule of Pension Plan Contributions

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

Last 10 Fiscal Years*

Miscellaneous Plan

	<u>2014</u>
Actuarially determined contribution	\$ 37,416
Contributions in relation to the actuarially determined contributions	<u>37,416</u>
Contributions deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	462,162
Contributions as a percentage of covered employee payroll	8.10%

PEPRA Miscellaneous Plan

	<u>2014</u>
Actuarially determined contribution	\$ 2,270
Contributions in relation to the actuarially determined contributions	<u>2,270</u>
Contributions deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	117,896
Contributions as a percentage of covered employee payroll	1.93%

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

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 501,013	\$ 501,013	\$ 503,479	\$ 2,466
Licenses and permits	50,000	50,000	59,848	9,848
Fines, forfeitures and penalties	1,000	1,000	1,048	48
Use of money and property	10,200	10,200	43,357	33,157
Intergovernmental	258,200	532,681	545,161	12,480
Charges for services	39,050	39,050	42,469	3,419
Other revenues	2,000	2,000	5,825	3,825
Total Revenues	<u>861,463</u>	<u>1,135,944</u>	<u>1,201,187</u>	<u>65,243</u>
Expenditures				
Current:				
General government	242,483	293,603	286,206	7,397
Planning and community development	111,449	119,475	120,080	(605)
Public safety	219,356	259,031	253,177	5,854
Public works	68,003	73,164	73,554	(391)
Parks and recreation	98,689	111,439	119,836	(8,397)
Total Expenditures	<u>739,981</u>	<u>856,712</u>	<u>852,853</u>	<u>3,859</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>121,482</u>	<u>279,232</u>	<u>348,334</u>	<u>(69,102)</u>
Other Financing Sources (Uses)				
Transfers out	<u>(196,409)</u>	<u>(138,826)</u>	<u>(138,826)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(196,409)</u>	<u>(138,826)</u>	<u>(138,826)</u>	<u>-</u>
Net Change in Fund Balances	(74,927)	140,406	209,508	(69,102)
Fund Balances, Beginning of Year	<u>3,327,838</u>	<u>3,327,838</u>	<u>3,327,838</u>	<u>-</u>
Fund Balances, End of Year	<u>\$3,252,911</u>	<u>\$3,468,244</u>	<u>\$3,537,346</u>	<u>\$ (69,102)</u>

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

CITY OF PORTOLA

Notes to Required Supplementary Information For the Year Ended June 30, 2015

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

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CITY OF PORTOLA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2015

		State Transportation	Gas Tax	Community Development	
	Snow Removal	Improvement Plan	Funds	Block Grant	Total
Assets					
Cash and investments	\$ 1,981	\$ -	\$ 12,309	\$ 372,546	\$ 386,836
Interest receivable	-	-	-	222	222
Notes receivable	-	-	-	99,151	99,151
Total Assets	<u>\$ 1,981</u>	<u>\$ --</u>	<u>\$ 12,309</u>	<u>\$ 471,919</u>	<u>\$ 486,209</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$ 1,981	-	\$ 12,309	\$ 2,048	\$ 16,338
Due to other funds	-	45,180	-	-	45,180
Total Liabilities	<u>1,981</u>	<u>45,180</u>	<u>12,309</u>	<u>2,048</u>	<u>61,518</u>
Fund Balance:					
Restricted	-	-	-	118,734	118,734
Assigned	-	-	-	351,137	351,137
Unassigned	-	(45,180)	-	-	(45,180)
Total Fund Balance	<u>-</u>	<u>(45,180)</u>	<u>-</u>	<u>469,871</u>	<u>424,691</u>
Total Liabilities and Fund Balance	<u>\$ 1,981</u>	<u>\$ -</u>	<u>\$ 12,309</u>	<u>\$ 471,919</u>	<u>\$ 486,209</u>

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

CITY OF PORTOLA

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2015

	Snow Removal	State Transportation Improvement Plan	Gas Tax Funds	Community Development Block Grant	Total
Revenues					
Use of money and property	\$ -	\$ -	\$ -	\$ 256	\$ 256
Intergovernmental	40,555	-	63,276	-	103,831
Total Revenues	<u>40,555</u>	<u>-</u>	<u>63,276</u>	<u>256</u>	<u>104,087</u>
Expenditures					
Current:					
Public safety	-	-	25,728	-	25,728
Streets and roads	110,573	19,810	106,356	-	236,739
Planning and community development	-	-	-	48,001	48,001
Total Expenditures	<u>110,573</u>	<u>19,810</u>	<u>132,084</u>	<u>48,001</u>	<u>310,468</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(70,018)</u>	<u>(19,810)</u>	<u>(68,808)</u>	<u>(47,745)</u>	<u>(206,381)</u>
Other Financing Sources (Uses)					
Transfers in	70,018	-	68,808	-	138,826
Total Other Financing Sources (Uses)	<u>70,018</u>	<u>-</u>	<u>68,808</u>	<u>-</u>	<u>138,826</u>
Net Change in Fund Balances	-	(19,810)	-	(47,745)	(67,555)
Fund Balances, Beginning of Year	-	(25,370)	-	517,616	492,246
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ (45,180)</u>	<u>\$ -</u>	<u>\$ 469,871</u>	<u>\$ 424,691</u>

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

OTHER REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Portola (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 16, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

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

Roseville, California
February 16, 2016