

CITY OF PORTOLA

AUDIT REPORT

JUNE 30, 2011

CITY OF PORTOLA

Table of Contents

	<u>Page</u>
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis (MD & A)	3-11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities.....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances.....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities	17
Proprietary Funds:	
Statement of Fund Net Assets	18
Statement of Revenues, Expenses and Changes in Fund Net Assets	19
Statement of Cash Flows.....	20-21
Notes to Financial Statements	22-42
Required Supplementary Information:	
Status of Funding Progress.....	43
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund.....	44
State Transportation Improvement Plan	45
Snow Removal Plan.....	46
Note to Required Supplementary Information:	
Budgets and Budgetary Accounting	47
Supplementary Information:	
Combining and Individual Nonmajor Fund Statements:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	48-49
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	50-51
Other Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52-53



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portola, California, (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the other required supplementary 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Portola's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Gallina LLP

Roseville, California
January 17, 2012

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

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

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, 2011. It should be read in conjunction with the City's basic financial statements following this section.

I. FINANCIAL HIGHLIGHTS

A. Government-Wide Financial Analysis

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$16,827,236 (net assets):

- \$11,650,979 represents the City's investment in capital assets, less any related outstanding debt used to acquire those assets (invested in capital assets, net of related debt).
- \$1,081,160 is available for the City's ongoing obligations related to programs with external restrictions (restricted net assets).
- \$4,095,097 is available to fund City programs for citizens and debt obligations to creditors (unrestricted net assets).

The City's total net assets decreased by \$523,422 over the prior year:

- The \$265,250 decrease in net assets invested in capital assets, net of related debt, represents capital expenditures less depreciation and the retirement of related long-term debt.
- The \$101,551 increase in restricted net assets represents the change in resources that are subject to external restrictions on their use, and is detailed in the government-wide financial analysis section on page 6.
- The \$359,723 decrease in unrestricted net assets is the change in resources available to fund City programs to citizens and debt obligations to creditors. This change is further discussed on page 8.

B. Financial Analysis of the City's Funds

The City's governmental funds combined ending fund balance of \$4,189,786 was a decrease of \$256,161 from the prior year ending fund balance of \$4,445,947. Amounts available for spending include restricted, committed, assigned, and unassigned fund balances; these totaled \$3,266,652, or 78% of ending fund balance. Of this amount, \$258,080 is restricted by law or externally imposed requirements, and \$57,933 is committed for specific purposes.

CITY OF PORTOLA

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

II. OVERVIEW OF THE FINANCIAL STATEMENTS

A. Government-Wide Financial Statements

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

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

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

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

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The City maintains 11 individual governmental funds. On the financial statements for governmental funds, information is presented separately for the General Fund. Data from nonmajor governmental funds are aggregated into a single column.

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

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

C. Required Supplementary Information

In addition to the basic financial statements, this report presents budgetary comparisons for the General Fund as required supplementary information.

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, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Total		Total	
	2011	2010	2011	2010	2011	2010	Dollar Change	Percent Change
Current and other assets	\$ 5,606,307	\$ 5,892,919	\$ 2,058,962	\$ 2,066,875	\$ 7,665,269	\$ 7,959,794	\$ (294,525)	-4%
Capital assets	7,655,607	7,720,774	5,301,990	5,511,823	12,957,597	13,232,597	(275,000)	-2%
Total Assets	<u>13,261,914</u>	<u>13,613,693</u>	<u>7,360,952</u>	<u>7,578,698</u>	<u>20,622,866</u>	<u>21,192,391</u>	<u>(569,525)</u>	<u>-3%</u>
Current and other liabilities	136,096	107,329	148,595	75,451	284,691	182,780	101,911	56%
Long term liabilities	27,493	77,809	3,483,446	3,581,144	3,510,939	3,658,953	(148,014)	-4%
Total Liabilities	<u>163,589</u>	<u>185,138</u>	<u>3,632,041</u>	<u>3,656,595</u>	<u>3,795,630</u>	<u>3,841,733</u>	<u>(46,103)</u>	<u>-1%</u>
Invested in capital assets, net	7,655,607	7,696,127	3,995,372	4,146,833	11,650,979	11,842,960	(191,981)	-2%
Restricted	252,080	161,812	829,080	817,797	1,081,160	979,609	101,551	10%
Unrestricted	5,190,638	5,570,616	(1,095,541)	(1,042,527)	4,095,097	4,528,089	(432,992)	-10%
Total Net Assets	<u>\$ 13,098,325</u>	<u>\$ 13,428,555</u>	<u>\$ 3,728,911</u>	<u>\$ 3,922,103</u>	<u>\$ 16,827,236</u>	<u>\$ 17,350,658</u>	<u>\$ (523,422)</u>	<u>-3%</u>

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

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent 6.4% of the total net assets and are resources subject to external restrictions on how they may be used.

Unrestricted net assets represent 24.7% of the total net assets and may be used to meet the City's ongoing obligations to citizens and creditors.

Statement of Activities For the Years Ended June 30, 2011 and 2010

	Governmental Activities		Business-Type Activities		Total		Total	
	2011	2010	2011	2010	2011	2010	Dollar Change	Percent Change
Program revenues:								
Charges for services	\$ 116,915	\$ 139,927	\$ 1,326,630	\$ 1,302,313	\$ 1,443,545	\$ 1,442,240	\$ 1,305	0%
Operating grants & contributions	519,009	453,730	5,000	7,686	524,009	461,416	62,593	14%
Capital grants & contributions	237,347	649,170	--	--	237,347	649,170	(411,823)	-63%
General revenues:								
Property taxes	256,969	280,123	--	--	256,969	280,123	(23,154)	-8%
Other taxes	256,871	256,249	--	--	256,871	256,249	622	0%
Other revenue	102,363	30,905	1,589	129,340	103,952	160,245	(56,293)	-35%
Total Revenues	<u>1,489,474</u>	<u>1,810,104</u>	<u>1,333,219</u>	<u>1,439,339</u>	<u>2,822,693</u>	<u>3,249,443</u>	<u>(426,750)</u>	<u>-13%</u>
Expenses:								
General government	408,153	333,491	--	--	408,153	333,491	74,662	22%
Planning and community development	192,234	332,571	--	--	192,234	332,571	(140,337)	-42%
Public safety	316,098	378,643	--	--	316,098	378,643	(62,545)	-17%
Streets and roads	670,102	479,161	--	--	670,102	479,161	190,941	40%
Public works	74,940	105,349	--	--	74,940	105,349	(30,409)	-29%
Parks and recreation	156,735	153,099	--	--	156,735	153,099	3,636	2%
Debt service:								
Interest	1,442	2,805	--	--	1,442	2,805	(1,363)	-49%
Water Service	--	--	748,460	671,153	748,460	671,153	77,307	12%
Sewer Service	--	--	580,183	554,681	580,183	554,681	25,502	5%
Solid Waste	--	--	197,768	162,998	197,768	162,998	34,770	21%
Total Expenses	<u>1,819,704</u>	<u>1,785,119</u>	<u>1,526,411</u>	<u>1,388,832</u>	<u>3,346,115</u>	<u>3,173,951</u>	<u>172,164</u>	<u>5%</u>
Change in net assets	<u>(330,230)</u>	<u>24,985</u>	<u>(193,192)</u>	<u>50,507</u>	<u>(523,422)</u>	<u>75,492</u>	<u>(598,914)</u>	<u>-793%</u>
Net assets, beginning	<u>13,428,555</u>	<u>13,403,570</u>	<u>3,922,103</u>	<u>3,871,596</u>	<u>17,350,658</u>	<u>17,275,166</u>	<u>75,492</u>	<u>0%</u>
Net assets, ending	<u>\$ 13,098,325</u>	<u>\$ 13,428,555</u>	<u>\$ 3,728,911</u>	<u>\$ 3,922,103</u>	<u>\$ 16,827,236</u>	<u>\$ 17,350,658</u>	<u>\$ (523,422)</u>	<u>-3%</u>

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

- Governmental activities reported a \$330,230 decrease in net assets, and business-type activities reported a decrease of \$193,192, for a net decrease of \$523,422.

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

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 nonspendable portion is a useful measure of the City's resources available for spending at the end of the fiscal year.

At June 30, 2011, the City's governmental funds reported combined ending fund balances of \$4,189,786. Approximately 78% of this total amount, or \$3,266,652, 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, 2011, total fund balance less the nonspendable portion of the General Fund was \$2,837,663 while total fund balance was \$3,632,722. As measures of the general fund's liquidity, it is useful to note that available fund balance represents 240% of total fund expenditures.

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

Revenues Classified by Source Governmental Funds						
<u>Revenue Sources</u>	FY 2011		FY 2010		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Taxes	\$ 513,840	33%	\$ 492,482	28%	\$ 21,358	4%
Licenses and permits	61,951	4%	67,153	4%	(5,202)	-8%
Fines & forfeitures	4,679	0%	3,648	0%	1,031	28%
Use of money & property	20,491	1%	29,104	2%	(8,613)	-30%
Intergovernmental	802,109	52%	1,074,607	62%	(272,498)	-25%
Charges for Services	50,285	3%	69,126	4%	(18,841)	-27%
Other	81,872	5%	1,801	0%	80,071	4446%
Total	\$ 1,535,227	100%	\$ 1,737,921	100%	\$ (202,694)	-12%

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

Significant changes for major revenue sources are explained below.

- Taxes – Property taxes decreases in 2011 by \$22,122, while sales taxes increased by \$3,212. Although the governmental funds report an increase in total taxes received, this is primarily due to the 2010 Proposition 1A loan to the state which reduced 2010 property taxes by \$43,891.
- Licenses and Permits – Cable TV franchise fees decreases by \$4,082 and building permits were down \$10,178, while business licenses increased by \$4,840. Animal control licenses increased by \$1,112 and Sierra Pacific franchise fees increased by \$2,000.
- Fines and Forfeitures – Due to increased enforcement activities fines and forfeitures increased.
- Use of Money & Property – Decrease in interest income due to the decrease in interest rates.
- Intergovernmental – The Riverfront Park project was completed and resulted in a reduction of \$369,315 in grant funds. The A-15 STIP project resulted in an increase of \$217,594. There was also a reduction in the Property Tax in-lieu portion of the Motor Vehicle in-lieu fees of \$16,000 and a one- time contribution in 2010 for the Proposition 50 Musser property grant of \$185,000.
- Charges for Services decreased as \$7,422 less in Traffic Impact Fees were collected. Plan check fees were down \$8,791 and Forest Service Fire fees were down \$4,320. There was a slight increase in fees collected at the swimming pool.
- Increase in Other largely due to \$55,901 in insurance recoveries and the donated value of demolition on the Musser property which was recognized in the current fiscal year.

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

Expenditures by Function Governmental Funds						
	FY 2011		FY 2010		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General government	\$ 399,641	22%	\$ 324,240	15%	\$ 75,401	23%
Planning and community development	330,394	18%	332,571	15%	(2,177)	-1%
Public safety	273,377	15%	327,324	15%	(53,947)	-16%
Streets and roads	513,696	29%	319,459	15%	194,237	61%
Public works	77,666	4%	103,473	5%	(25,807)	-25%
Parks and recreation	170,525	10%	722,493	34%	(551,968)	-76%
Debt Service:						
Principal expense	24,647	1%	23,284	1%	1,363	6%
Interest and fiscal charges	1,442	0%	2,805	0%	(1,363)	-49%
Total Expenditures	\$ 1,791,388	100%	\$ 2,155,649	100%	\$ (364,261)	-17%

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

Significant changes for major function are explained below:

- General Government is higher due to the retirement of the City manager and the final pay associated with that.
- Public Safety decreased mainly due to changes in staffing which resulted in a reduction of \$58,104 in personnel costs.
- Streets and Roads increased due to the expenses associated with the A-15 STIP project
- Public Works decreased due to decreases in personnel costs
- Parks and Recreation decreased because the Riverfront Park project and the Prop 50 Musser project were completed.

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 impending growth and tourism. This year's budget, while keeping all four goals in mind, addressed only goals number (1) sustaining the level and quality of services currently being provided to our residents and (2) maintaining the City's infrastructure.

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

For the fiscal year 2010/2011, General Fund revenues were less than budget by \$9,680 and General Fund expenditures were \$9,871 less than budgeted.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The change in capital assets for the Governmental Activities totaled (\$65,167), net of depreciation for an ending balance of \$7,655,607. Retirements of \$3,070, were fully depreciated; therefore it did not affect net balance of capital assets.

Business-type capital assets for the fiscal year ending June 30, 2011, were \$5,301,990, net of depreciation. This is a decrease in Capital Assets of \$209,833 which is a combination of asset

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

additions of \$2,343, and Depreciation of \$212,176. 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, 2011, the City had long-term debt outstanding of \$1,373,818. This is a decrease over June 30, 2010 of \$99,819. The entire long-term debt was attributable to Business-type activities. There is no long-term debt in the Governmental Activities.

More detailed information about the City's long-term liabilities is presented in Note 7 of the basic financial statements.

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

Management presented a budget document that attempted to address the current National, State and local economic conditions and to serve as the City's 2011-2012 City Council *policy document*, as an *operations guide*, as a *financial plan* and as a *communication document* to guide the City staff and Portola residents on how the City of Portola conducts its financial business. The challenges of the current economic situation, the need to comply with State regulations and the desire to be conservative with the fiscal position of the City are reflected.

The budget process began as usual in February with City staff preparing draft level of services budgets for each area of the City. In March City staff, the general public and City Council participated in a FY2011-2012 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 how to make cuts to provide a balanced budget. In May the City Manager proposed to retire and not replace his position for the next two budgets. The Council voted in favor of that proposal and combined the City Manager and City Administrative Services manager into one position for the next two years. In addition a Public Works position was vacated and has not been replaced. The changes resulted in a 15% decrease in budgeted personnel from the prior year. As part of the continuous review of the City's financial state, staff presented the Council with a proposal to change the Pension Plan for new hires. This change will not result in an immediate cost savings to the City but will result in cost savings over time as vacant positions are filled. 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 Budget utilizes a projected \$57,933 of the General Fund's fund balance to eliminate a projected shortfall of revenues over expenditures in the General Fund. The 2011-2012 General Fund budgeted expenditures are \$866,736 compared to \$1,158,282 for 2010-2011. Close attention needs to be paid to budget amendments and the use of additional fund balance.

CITY OF PORTOLA

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

Because the City's current population remains small our portions of Gas Taxes, Property Taxes, Sales Taxes and other shared revenue has been, as in the past, further supported from investment account interest revenue incurred from Fund Balance. Due to the current National economy and recession we have experienced a decrease in property taxes and interest rates; therefore, this revenue stream has been significantly reduced. The General Fund continues to support the services necessary for the residents of Portola, including fire, parks, planning, building, animal control, and law enforcement through a Sheriff's contract for services and the use of a Community Services Officer performing code enforcement, parking enforcements and service oriented duties.

With regard to the City Enterprise Funds the effects and impacts of changing state and federal government regulation has caused their Net Assets to decline. The Water and Sewer funds have reached deficit cash balances with the exception of funds that are restricted for specific purposes. 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. As Enterprise Funds are "business-type" activities whose expenses need to be covered by rates, a specialized rate study was conducted that evaluated our costs of service delivery and projected rates necessary over the next 5 year period. Beginning in the fall of 2010, the City contracted for the rate study with the engineering firm HDR. Extensive work was completed by staff and numerous public meetings were held to discuss the projections for rate increases. HDR made four presentations to both the City Council and the public over a five (5) month period. Rates were increased for the first year as recommended in the rate study. The City Council will 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**

CITY OF PORTOLA

Statement of Net Assets June 30, 2011

<u>ASSETS</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
Cash and investments	\$ 3,071,612	\$ --	\$ 3,071,612
Restricted Assets:			
Restricted cash	--	829,080	829,080
Restricted investments	--	728,044	728,044
Imprest cash	335	--	335
Accounts receivable	11,596	156,495	168,091
Interest receivable	4,467	484	4,951
Due from other governments	304,273	170,808	475,081
Prepaid expenses	--	1,010,000	1,010,000
Loans and notes receivable	1,378,075	--	1,378,075
Internal balances	835,949	(835,949)	--
Capital Assets:			
Nondepreciable	1,393,021	62,844	1,455,865
Depreciable, net	6,262,586	5,239,146	11,501,732
Total Assets	\$ 13,261,914	\$ 7,360,952	\$ 20,622,866
 <u>LIABILITIES</u>			
Accounts payable	\$ 61,865	\$ 16,294	\$ 78,159
Accrued salaries and benefits payable	12,548	14,390	26,938
Deposits	15,757	18,537	34,294
Deferred revenue	17,460	--	17,460
Accrued expenses	15,001	--	15,001
Accrued interest	--	26,707	26,707
Long-term liabilities:			
Portion due or payable within one year:			
Compensated absences	13,465	11,547	25,012
Notes payable	--	61,120	61,120
Portion due or payable after one year:			
Compensated absences	27,493	23,579	51,072
Notes payable	--	1,312,698	1,312,698
Liability for landfill closure and postclosure	--	2,147,169	2,147,169
Total Liabilities	163,589	3,632,041	3,795,630
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	7,655,607	3,995,372	11,650,979
Restricted:			
Streets and roads	133,346	--	133,346
Planning and community development	118,734	--	118,734
Capital improvements	--	738,843	738,843
Debt service	--	90,237	90,237
Unrestricted	5,190,638	(1,095,541)	4,095,097
Total Net Assets	13,098,325	3,728,911	16,827,236
 Total Liabilities and Net Assets	\$ 13,261,914	\$ 7,360,952	\$ 20,622,866

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

CITY OF PORTOLA

Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 408,153	\$ 41,755	\$ --	\$ --
Planning and community development	192,234	3,899	22,455	--
Public safety	316,098	47,447	296,253	--
Streets and roads	670,102	6,000	--	177,006
Public works	74,940	--	--	--
Parks and recreation	156,735	17,814	200,301	60,341
Debt Service:				
Interest	1,442	--	--	--
Total Governmental Activities	<u>1,819,704</u>	<u>116,915</u>	<u>519,009</u>	<u>237,347</u>
Business-Type Activities:				
Water Service	748,460	534,265	--	--
Sewer Service	580,183	452,712	--	--
Solid Waste	197,768	339,653	5,000	--
Total Business-Type Activities:	<u>1,526,411</u>	<u>1,326,630</u>	<u>5,000</u>	<u>--</u>
Total City of Portola	<u>\$ 3,346,115</u>	<u>\$ 1,443,545</u>	<u>\$ 524,009</u>	<u>\$ 237,347</u>

General Revenues:

Taxes:

Property taxes

Sales and use taxes

Other

Unrestricted interest and investment earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net assets - July 1

Net assets - June 30

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (366,398)	\$ --	\$ (366,398)
(165,880)	--	(165,880)
27,602	--	27,602
(487,096)	--	(487,096)
(74,940)	--	(74,940)
121,721	--	121,721
(1,442)		(1,442)
<u>(946,433)</u>	<u>--</u>	<u>(946,433)</u>
--	(214,195)	(214,195)
--	(127,471)	(127,471)
--	146,885	146,885
<u>--</u>	<u>(194,781)</u>	<u>(194,781)</u>
<u>(946,433)</u>	<u>(194,781)</u>	<u>(1,141,214)</u>
256,969	--	256,969
200,449	--	200,449
56,422	--	56,422
20,491	1,464	21,955
81,872	125	81,997
<u>616,203</u>	<u>1,589</u>	<u>617,792</u>
(330,230)	(193,192)	(523,422)
<u>13,428,555</u>	<u>3,922,103</u>	<u>17,350,658</u>
<u>\$ 13,098,325</u>	<u>\$ 3,728,911</u>	<u>\$ 16,827,236</u>

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

CITY OF PORTOLA

Balance Sheet
Governmental Funds
June 30, 2011

	General	Snow Removal	State Transportation Improvement Plan	Other Governmental Funds	Total
<u>Assets</u>					
Cash and investments	\$ 2,638,343	\$ --	\$ --	\$ 433,269	\$ 3,071,612
Imprest cash	335	--	--	--	335
Notes receivable	1,250,000	--	--	128,075	1,378,075
Accounts receivable	11,596	--	--	--	11,596
Interest receivable	3,980	--	--	487	4,467
Due from other funds	199,067	--	--	--	199,067
Advances to other funds	795,059	--	--	--	795,059
Due from other governmental agencies	86,687	6,000	196,492	15,094	304,273
Total Assets	<u>\$ 4,985,067</u>	<u>\$ 6,000</u>	<u>\$ 196,492</u>	<u>\$ 576,925</u>	<u>\$ 5,764,484</u>
<u>Liabilities and Fund Balance</u>					
Liabilities:					
Accounts payable	\$ 14,796	\$ 1,302	\$ 59,861	\$ 907	\$ 76,866
Accrued salaries and benefits payable	10,442	1,214	--	892	12,548
Deposits from others	15,757	--	--	--	15,757
Deferred revenue	1,311,350	--	--	--	1,311,350
Due to other funds	--	3,484	152,610	2,083	158,177
Total Liabilities	<u>1,352,345</u>	<u>6,000</u>	<u>212,471</u>	<u>3,882</u>	<u>1,574,698</u>
Fund Balance:					
Nonspendable	795,059	--	--	128,075	923,134
Restricted	121,659	--	--	130,421	252,080
Committed	57,933	--	--	--	57,933
Assigned	--	--	--	314,547	314,547
Unassigned	2,658,071	--	(15,979)	--	2,642,092
Total Fund Balance	<u>3,632,722</u>	<u>--</u>	<u>(15,979)</u>	<u>573,043</u>	<u>4,189,786</u>
Total Liabilities and Fund Balance	<u>\$ 4,985,067</u>	<u>\$ 6,000</u>	<u>\$ 196,492</u>	<u>\$ 576,925</u>	<u>\$ 5,764,484</u>

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

CITY OF PORTOLA

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets - Governmental Activities
June 30, 2011

Fund Balance - total governmental funds (from previous page)	\$ 4,189,786
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	7,655,607
Deferred revenues and long-term assets represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	1,293,890
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds.	
Compensated absences	<u>(40,958)</u>
Net assets of governmental activities	<u><u>\$ 13,098,325</u></u>

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

CITY OF PORTOLA

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General	Snow Removal	State Transportation Improvement Plan	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 513,840	\$ --	\$ --	\$ --	\$ 513,840
Licenses and permits	61,951	--	--	--	61,951
Fines, forfeitures and penalties	4,679	--	--	--	4,679
Use of money and property	16,042	--	--	4,449	20,491
Intergovernmental	356,594	95,356	222,759	127,400	802,109
Charges for services	44,285	6,000	--	--	50,285
Other revenues	81,872	--	--	--	81,872
Total Revenues	<u>1,079,263</u>	<u>101,356</u>	<u>222,759</u>	<u>131,849</u>	<u>1,535,227</u>
Expenditures:					
Current:					
General government	399,641	--	--	--	399,641
Planning and community development	235,039	--	--	95,355	330,394
Public safety	249,322	--	--	24,055	273,377
Streets and roads	--	232,098	183,940	97,658	513,696
Public works	77,666	--	--	--	77,666
Parks and recreation	170,525	--	--	--	170,525
Debt Service:					
Principal expense	24,647	--	--	--	24,647
Interest and fiscal charges	1,442	--	--	--	1,442
Total Expenditures	<u>1,158,282</u>	<u>232,098</u>	<u>183,940</u>	<u>217,068</u>	<u>1,791,388</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(79,019)</u>	<u>(130,742)</u>	<u>38,819</u>	<u>(85,219)</u>	<u>(256,161)</u>
Other Financing Sources (Uses):					
Transfers in	--	130,742	--	54,520	185,262
Transfers out	(185,262)	--	--	--	(185,262)
Total Other Financing Sources (Uses)	<u>(185,262)</u>	<u>130,742</u>	<u>--</u>	<u>54,520</u>	<u>--</u>
Net Change in Fund Balances	(264,281)	--	38,819	(30,699)	(256,161)
Fund Balances, Beginning of Year	<u>3,897,003</u>	<u>--</u>	<u>(54,798)</u>	<u>603,742</u>	<u>4,445,947</u>
Fund Balances, End of Year	<u>\$ 3,632,722</u>	<u>\$ --</u>	<u>\$ (15,979)</u>	<u>\$ 573,043</u>	<u>\$ 4,189,786</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 Year Ended June 30, 2011

Net change to fund balance - total governmental funds \$ (256,161)

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

Governmental funds report capital outlay as expenditures. However,
in the statement of activities, the cost of those assets is allocated
over their estimated useful lives and reported as depreciation
expense.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 422,824	
Less: current year depreciation	<u>(487,991)</u>	(65,167)

Revenues earned by the City but not received within the availability
period are deferred on the fund statements but recognized as
revenue on the statement of activities (45,753)

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

Principal repayments:
Capital leases 24,647

Some expenses reported in the statement of activities do not
require the use of current financial resources and, therefore, are
not reported as expenditures in governmental funds.

Change in compensated absences		<u>12,204</u>
Change in net assets of governmental activities		<u><u>\$ (330,230)</u></u>

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

CITY OF PORTOLA

Statement of Fund Net Assets
Proprietary Funds
June 30, 2011

<u>Assets</u>	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Current Assets:				
Cash and investments	\$ --	\$ --	\$ --	\$ --
Interest receivable	34	450	--	484
Account receivable	63,653	56,809	36,033	156,495
Due from other governmental agencies	165,808	--	5,000	170,808
Prepaid expenses	1,010,000	--	--	1,010,000
Restricted assets:				
Restricted cash	384,913	444,167	--	829,080
Restricted investments	--	--	728,044	728,044
Total Current Assets	1,624,408	501,426	769,077	2,894,911
Noncurrent Assets:				
Capital Assets:				
Non depreciable	--	31,422	31,422	62,844
Depreciable, net	2,423,316	2,773,983	41,847	5,239,146
Total Noncurrent Assets	2,423,316	2,805,405	73,269	5,301,990
Total Assets	\$ 4,047,724	\$ 3,306,831	\$ 842,346	\$ 8,196,901
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	\$ 9,170	\$ 4,981	\$ 2,143	\$ 16,294
Accrued salaries and benefits payable	7,550	5,987	853	14,390
Due to other funds	--	40,890	--	40,890
Deposits	18,537	--	--	18,537
Accrued interest	20,009	6,698	--	26,707
Liability for compensated absences	6,072	4,743	732	11,547
Notes payable - current portion	19,000	25,320	16,800	61,120
Total Current Liabilities	80,338	88,619	20,528	189,485
Noncurrent Liabilities				
Liability for compensated absences	12,398	9,685	1,496	23,579
Advances from other funds	352,102	--	442,957	795,059
Landfill closure and postclosure	--	--	2,147,169	2,147,169
Notes payable	1,100,500	161,798	50,400	1,312,698
Total Noncurrent Liabilities	1,465,000	171,483	2,642,022	4,278,505
Total Liabilities	1,545,338	260,102	2,662,550	4,467,990
Net Assets:				
Invested in capital assets, net of related debt	1,303,816	2,618,287	73,269	3,995,372
Restricted:				
Debt service	90,237	--	--	90,237
Facility fees	294,676	252,460	--	547,136
Capital projects	--	191,707	--	191,707
Unrestricted:				
Unrestricted	813,657	(15,725)	(1,893,473)	(1,095,541)
Total Net Assets	2,502,386	3,046,729	(1,820,204)	3,728,911
Total Liabilities and Net Assets	\$ 4,047,724	\$ 3,306,831	\$ 842,346	\$ 8,196,901

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

CITY OF PORTOLA

Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2011

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
Operating Revenues:				
Fines	\$ 11,903	\$ 7,498	\$ 6,032	\$ 25,433
Charges for services	522,362	445,214	333,621	1,301,197
Total Operating Revenues	<u>534,265</u>	<u>452,712</u>	<u>339,653</u>	<u>1,326,630</u>
Operating Expenses:				
Salaries and wages	332,216	256,124	40,412	628,752
Services and supplies	245,477	225,315	75,681	546,473
Landfill closure costs	--	--	77,926	77,926
Depreciation	113,505	94,922	3,749	212,176
Total Operating Expenses	<u>691,198</u>	<u>576,361</u>	<u>197,768</u>	<u>1,465,327</u>
Operating Income (Loss)	<u>(156,933)</u>	<u>(123,649)</u>	<u>141,885</u>	<u>(138,697)</u>
Non-Operating Revenue (Expenses):				
Interest income (loss)	1,381	1,886	(1,803)	1,464
Miscellaneous revenue	125	--	--	125
Intergovernmental revenue	--	--	5,000	5,000
Debt service interest and fiscal charges	(57,262)	(3,822)	--	(61,084)
Total Non-Operating Revenue (Expenses)	<u>(55,756)</u>	<u>(1,936)</u>	<u>3,197</u>	<u>(54,495)</u>
Change in Net Assets	(212,689)	(125,585)	145,082	(193,192)
Net Assets, Beginning of Year	<u>2,715,075</u>	<u>3,172,314</u>	<u>(1,965,286)</u>	<u>3,922,103</u>
Net Assets, End of Year	<u>\$ 2,502,386</u>	<u>\$ 3,046,729</u>	<u>\$ (1,820,204)</u>	<u>\$ 3,728,911</u>

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

CITY OF PORTOLA

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Water Service</u>	<u>Sewer Service</u>	<u>Solid Waste</u>	
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 532,844	\$ 445,540	\$ 337,703	\$ 1,316,087
Cash paid to suppliers for goods and services	(241,510)	(228,059)	(89,149)	(558,718)
Cash paid to employees for services	(338,742)	(264,069)	(41,004)	(643,815)
Net Cash Provided (Used) by Operating Activities	<u>(47,408)</u>	<u>(46,588)</u>	<u>207,550</u>	<u>113,554</u>
Cash Flows From Noncapital Financing Activities:				
Cash repayments from (to) other funds	140,680	40,890	(69,062)	112,508
Cash received from grants	--	--	5,000	5,000
Miscellaneous income received	125	--	--	125
Net Cash Provided (Used) by Noncapital Financing Activities	<u>140,805</u>	<u>40,890</u>	<u>(64,062)</u>	<u>117,633</u>
Cash Flows From Capital and Related Financing Activities:				
Principal repayments on long-term debt	(33,500)	(24,872)	(16,800)	(75,172)
Interest repayments related to capital purposes	(57,262)	(3,822)	--	(61,084)
Payments related to the acquisition of capital assets	--	(2,344)	--	(2,344)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(90,762)</u>	<u>(31,038)</u>	<u>(16,800)</u>	<u>(138,600)</u>
Cash Flows From Investing Activities:				
Interest received or paid	1,380	2,066	(1,802)	1,644
Net Cash Provided by Investing Activities	<u>1,380</u>	<u>2,066</u>	<u>(1,802)</u>	<u>1,644</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,015	(34,670)	124,886	94,231
Cash and Cash Equivalents, Beginning of Year	<u>380,898</u>	<u>478,837</u>	<u>603,158</u>	<u>1,462,893</u>
Cash and Cash Equivalents, End of Year	<u>\$ 384,913</u>	<u>\$ 444,167</u>	<u>\$ 728,044</u>	<u>\$ 1,557,124</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ --	\$ --	\$ --	\$ --
Cash and cash equivalents in restricted assets	384,913	444,167	728,044	1,557,124
Total Cash and Cash Equivalents	<u>\$ 384,913</u>	<u>\$ 444,167</u>	<u>\$ 728,044</u>	<u>\$ 1,557,124</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, 2011

	Business-Type Activities - Enterprise Funds			
	Water Service	Sewer Service	Solid Waste	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (156,933)	\$ (123,649)	\$ 141,885	\$ (138,697)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	113,505	94,922	3,749	212,176
Changes in assets and liabilities:				
(Increase) decrease in:				
Utilities receivable	(1,421)	--	--	(1,421)
Accounts receivable	--	(7,172)	(1,950)	(9,122)
Customer deposits	(37)	--	--	(37)
Prepaid items	--	--	--	--
Increase (decrease) in:				
Accounts payable	3,967	(2,744)	(709)	514
Accrued expenses	--	--	--	--
Liability for compensated absences	(6,489)	(7,945)	(592)	(15,026)
Closure/postclosure liability	--	--	65,167	65,167
Net Cash Provided (Used) by Operating Activities	\$ (47,408)	\$ (46,588)	\$ 207,550	\$ 113,554

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, 2011

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, 2011.

B. Basis of Financial Presentation

Government-Wide Financial Statements

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

The statement of activities presents a comparison between direct and indirect expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or a function and; therefore, are clearly identifiable to a particular function. Indirect expenses are those that are allocated to a program or a function from the City's centralized general service function based on the cost allocation principles established by the Federal Office of Management and Budget (OMB). Program revenues include 1) charges paid by the

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

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

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

Government-Wide Financial Statements (continued)

recipients of goods or services offered by the programs, 2) fines and penalties ordered by the courts, 3) licenses and permits charged by the programs, and 4) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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

Fund Financial Statements

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

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

The City reports the following major governmental funds:

- The *General Fund* is the primary operating fund of the City. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.
- The *Snow Removal Fund* is used to account for financial resources and transactions relating to snow removal activities.
- The State Transportation Improvement Plan Fund is used to account for activities relating to state funded projects.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

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

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

Fund Financial Statements (continued)

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, 2011

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

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

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

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

D. **Use of Estimates**

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

E. **Interfund Transactions and Balances**

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

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

E. **Interfund Transactions and Balances** (continued)

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

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

F. **Capital Assets**

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

The estimated useful lives are as follows:

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

G. **Property Tax**

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

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

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

H. Cash and Investments

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

I. Receivables

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

J. Prepaid Expense

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

K. Compensated Absences

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

<u>Employee Status</u>	<u>% of Sick Hours Received</u>	<u>% of Vacation Hours Received</u>
Part-time	15	50
Full-time	25	100

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

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

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

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

K. **Compensated Absences** (continued)

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

L. **New Accounting Pronouncements**

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Equity section footnote.

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

Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

Note 2: **Net Assets/Fund Balance** (continued)

Fund Equity

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

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

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

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the highest level of decision-making authority and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

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

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

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

Note 3: **Cash and Investments**

At June 30, 2011, total City cash and investments at fair value were as follows:

Petty cash	\$	335
Cash in bank		95,989
LAIF		3,804,703
Money market funds		<u>728,044</u>
		<u><u>\$ 4,629,071</u></u>

Total cash and investments at June 30, 2011 were presented on the City's financial statements as follows:

Cash and investments in pool	\$	3,071,612
Imprest cash		335
Restricted Assets:		
Cash		829,080
Investments		<u>728,044</u>
		<u><u>\$ 4,629,071</u></u>

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

Investments

At June 30, 2011, the City had the following investments:

	Par	Cost	Fair Value	WAM (Years)
Investments				
Money market funds	728,044	728,044	728,044	-
Local Agency Investment Fund (LAIF)	<u>3,804,703</u>	<u>3,804,703</u>	<u>3,804,703</u>	-
Total Investments	<u><u>\$4,532,747</u></u>	<u><u>\$4,532,747</u></u>	<u><u>\$4,532,747</u></u>	-

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

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

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

Interest Rate Risk

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

Credit Risk

The City authorizes participation in the following types of investments: FDIC Insured Accounts, Local Agency Investment Fund, and United States Government Securities. The City does not have credit limits on government agency securities. All government agency securities are funds reserved for the closure/postclosure costs associated with the landfill.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the City Investment Pool's fair value at June 30, 2011.

	<u>Moody's</u>	<u>% of Portfolio</u>
U.S. Treasury securities - coupon	Aaa	0.00%
Certificates of deposit	Unrated	0.00%
Money market funds	Unrated	16.06%
Local Agency Investment Fund (LAIF)	Unrated	<u>83.94%</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, 2011, the recorded amount of the City's deposits was \$95,989 and the bank balance was \$272,414. Of the bank statement balance \$250,000 was covered by federal depository insurance and \$22,414 was subject to collateralization.

Local Agency Investment Fund

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

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

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

Local Agency Investment Fund (continued)

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, 2011, the City's investment position in LAIF was \$3,804,703, 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 \$66.4 billion. Of that amount, 5.01% was invested in structured notes and asset-backed securities with the remaining 94.99% invested in other non-derivative financial products.

Note 4: **Loans and Notes Receivable**

During the fiscal year ended June 30, 2005, the City sold land in the South Development area for \$4,725,000. A down payment of \$1,375,000 was received at the point of sale with the remainder of the amount to be paid under two note receivables for \$2,100,000 and \$1,250,000 bearing interest at the rate of 6.0% over a 55 month term and carrying 0.0% interest due on or before the first day of the 96th month, respectively. At June 30, 2011, the outstanding balance of these notes is \$1,250,000. Additionally, the City has three loans receivable in the amount of \$51,754, which are comprised of loans to individuals for community development. The City also issued Community Development Block Grant (CDBG) loans in the amount of \$76,321. The total loans and notes receivable at June 30, 2011 is \$1,378,075.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

Note 5: Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2011
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 527,480	\$ 20,270	\$ --	\$ 198,527	\$ 746,277
Construction in progress	1,112,544	322,041	--	(787,841)	646,744
Total capital assets, not being depreciated	1,640,024	342,311	--	(589,314)	1,393,021
Capital assets, being depreciated:					
Infrastructure	6,790,584	--	--	589,314	7,379,898
Buildings and improvements	1,168,448	--	--	--	1,168,448
Machinery and equipment	1,059,832	80,513	(3,070)	--	1,137,275
Total capital assets, being depreciated	9,018,864	80,513	(3,070)	589,314	9,685,621
Less accumulated depreciation for:					
Infrastructure	(1,871,963)	(339,529)	--	--	(2,211,492)
Buildings and improvements	(412,960)	(66,808)	--	--	(479,768)
Machinery and equipment	(653,191)	(81,654)	3,070	--	(731,775)
Total accumulated depreciation	(2,938,114)	(487,991)	3,070	--	(3,423,035)
Total capital assets, being depreciated, net	6,080,750	(407,478)	--	589,314	6,262,586
Governmental activities capital assets, net	\$ 7,720,774	\$ (65,167)	\$ --	\$ --	\$ 7,655,607
	Balance July 1, 2010	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2011
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 62,844	\$ --	\$ --	\$ --	\$ 62,844
Construction in progress	16,751	--	--	(16,751)	--
Total capital assets, not being depreciated	79,595	--	--	(16,751)	62,844
Capital assets, being depreciated:					
Buildings and improvements	7,247,811	--	--	--	7,247,811
Machinery and equipment	925,874	2,343	(6,993)	16,751	937,975
Total capital assets, being depreciated	8,173,685	2,343	(6,993)	16,751	8,185,786
Less accumulated depreciation for:					
Buildings and improvements	(1,951,526)	(153,649)	--	--	(2,105,175)
Machinery and equipment	(789,931)	(58,527)	6,993	--	(841,465)
Total accumulated depreciation	(2,741,457)	(212,176)	6,993	--	(2,946,640)
Total capital assets, being depreciated, net	5,432,228	(209,833)	--	16,751	5,239,146
Business-type activities, net	\$ 5,511,823	\$ (209,833)	\$ --	\$ --	\$ 5,301,990

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

Note 6: **Depreciation**

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

Governmental Activities:

General government	\$ 15,169
Parks and recreation	74,611
Public safety	55,541
Public works	2,324
Snow removal	10,341
Streets and roads	330,005
Total Depreciation Expense – Governmental Activities	\$ 487,991

Business-type Activities:

Water Fund	\$ 113,505
Sewer Fund	94,922
Solid Waste Fund	3,749
Total Depreciation Expense – Business-type Activities	\$ 212,176

Note 7: **Long-Term Liabilities**

Long-term liabilities at June 30, 2011 consisted of the following:

	Date of Issue	Date of Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
<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	\$ 986,000
1997 Emergency Drought Relief Note	1977	11/1/2017	5.00%	\$3,000 - \$7,000	325,000	113,000
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	20,500
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	478,224	187,118
2005 Landfill Closure Note Payable	2005	7/1/2015	0.00%	\$16,800	168,000	67,200
Total Business-Type Activities					\$ 2,204,224	\$ 1,373,818

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

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

The following is a summary of long-term liabilities transactions for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Amounts Due Within One Year
Governmental Activities:					
Capital leases payable	\$ 24,647	\$ --	\$ 24,647	\$ --	\$ --
Compensated absences	53,162	13,465	25,669	40,958	13,465
Total	<u>\$ 77,809</u>	<u>\$ 13,465</u>	<u>\$ 50,316</u>	<u>\$ 40,958</u>	<u>\$ 13,465</u>
Business-type Activities:					
Notes payable	\$ 1,448,990	\$ --	\$ 75,172	\$ 1,373,818	\$ 77,620
Closure and postclosure costs	2,082,002	65,167	--	2,147,169	--
Compensated absences	50,152	11,547	26,573	35,126	11,547
Total	<u>\$ 3,581,144</u>	<u>\$ 76,714</u>	<u>\$ 101,745</u>	<u>\$ 3,556,113</u>	<u>\$ 89,167</u>

As of June 30, 2011, annual debt service requirements of business-type activities to maturity are as follows:

Year Ending June 30	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2012	77,620	58,936
2013	79,076	56,705
2014	82,041	54,377
2015	84,514	51,929
2016	71,196	49,373
2017-2021	236,371	210,678
2022-2026	175,000	169,050
2027-2031	222,000	120,950
2032-2036	282,000	59,650
2037-2038	64,000	3,200
Total	<u>\$ 1,373,818</u>	<u>\$ 834,848</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

Note 8: **Interfund Transactions and Balances**

The composition of interfund balances as of June 30, 2011 is as follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Sewer Service	\$ 40,890	To cover cash deficit expected to be recovered through future revenues.
	Nonmajor		
	Governmental	<u>158,177</u>	
		<u>\$ 199,067</u>	

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Solid Waste	\$ 442,957	To cover cash deficit expected to be recovered through future revenues.
	Water Service	<u>352,102</u>	
		<u>\$ 795,059</u>	

Transfers:

Transfers are used to subsidize various City operations. The following schedule briefly summarizes the City's transfer activity for the fiscal year ended June 30, 2011:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	<u>\$ 185,262</u>
	Total	<u>\$ 185,262</u>

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

Note 9: **Expenditures/Expenses in Excess of Budget and Deficit Fund Balance/Net Assets**

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

	Final Budget	Expenditures/ Expenses	Variance to Final Budget
<u>Major Business-Type Funds:</u>			
Solid Waste	137,018	197,768	(60,750)
<u>Nonmajor Governmental Funds:</u>			
Special Revenue Funds:			
Snow Removal	226,126	232,099	(5,973)

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

Enterprise Funds:	
Solid Waste Fund	\$(1,820,204)
Special Revenue Funds:	
STIP	(15,979)

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

The STIP Fund has a deficit fund balance due to excess expenditures not eligible for grant reimbursement. The City will transfer monies to cover the deficit in future years.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

Note 10: **Defined Benefit Pension Plans**

A. Plan Description

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

B. Funding Policy

The City makes the contributions required of City employees on their behalf and for their account. The rates are set by statute and therefore generally remain unchanged from year to year. The present actuarially determined rates of annual covered payroll are as follows:

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

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

Annual Pension Cost

For the fiscal year 2010/2011, the City of Portola’s annual pension cost was \$31,002 and the City actually contributed \$31,002. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%.

CITY OF PORTOLA

Notes to Financial Statements
June 30, 2011

Note 10: **Defined Benefit Pension Plans** (continued)

B. Funding Policy (continued)

Annual Pension Cost (continued)

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

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

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	\$ 19,925	100%	\$ --
6/30/10	23,178	100%	--
6/30/11	31,002	100%	--

Note 11: **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 12: **Landfill Closure and Postclosure Care Cost**

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

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

Note 12: **Landfill Closure and Postclosure Care Cost** (continued)

As of June 30, 2011, the City's estimated liability for postclosure maintenance costs for the landfill was \$2,147,169.

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

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

The City is required by state and federal laws and regulations to make annual contributions to a trust in order to finance closure and postclosure care. Investments of \$728,044 are held for these purposes. These are reported as restricted assets on the balance sheet. The government expects future inflation costs to be paid from interest earnings on these annual contributions.

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

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

Note 13: **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.

CITY OF PORTOLA

Notes to Financial Statements June 30, 2011

Note 13: **Risk Management** (continued)

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 14: **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, 2011.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF PORTOLA

Required Supplementary Information
For the Year Ended June 30, 2011

SCHEDULE OF FUNDING PROGRESS

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

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 General Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 510,600	\$ 510,600	\$ 513,840	\$ 3,240
Licenses and permits	61,000	61,000	61,951	951
Fines, forfeitures and penalties	2,000	2,000	4,679	2,679
Use of money and property	22,000	22,000	16,042	(5,958)
Intergovernmental	308,500	368,841	356,594	(12,247)
Charges for services	48,084	48,084	44,285	(3,799)
Other revenues	5,000	76,418	81,872	5,454
Total Revenues	<u>957,184</u>	<u>1,088,943</u>	<u>1,079,263</u>	<u>(9,680)</u>
Expenditures:				
Current:				
General government	339,544	416,184	399,641	16,543
Planning and community development	97,080	228,891	235,039	(6,148)
Public safety	241,422	253,745	249,322	4,423
Public works	79,282	79,282	77,666	1,616
Parks and recreation	67,168	163,962	170,525	(6,563)
Debt Service				
Principal	24,647	24,647	24,647	--
Interest	1,442	1,442	1,442	--
Total Expenditures	<u>850,585</u>	<u>1,168,153</u>	<u>1,158,282</u>	<u>9,871</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>106,599</u>	<u>(79,210)</u>	<u>(79,019)</u>	<u>191</u>
Other Financing Sources (Uses):				
Transfers out	<u>(133,552)</u>	<u>(192,004)</u>	<u>(185,262)</u>	<u>6,742</u>
Total Other Financing Sources (Uses)	<u>(133,552)</u>	<u>(192,004)</u>	<u>(185,262)</u>	<u>6,742</u>
Net Change in Fund Balances	(26,953)	(271,214)	(264,281)	6,933
Fund Balances, Beginning of Year	<u>3,897,003</u>	<u>3,897,003</u>	<u>3,897,003</u>	<u>--</u>
Fund Balances, End of Year	<u>\$ 3,870,050</u>	<u>\$ 3,625,789</u>	<u>\$ 3,632,722</u>	<u>\$ 6,933</u>

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 State Transportation Improvement Plan
 For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ --	\$ 222,759	\$ 222,759	\$ --
Use of money and property	--	--	--	--
Total Revenues	<u>--</u>	<u>222,759</u>	<u>222,759</u>	<u>--</u>
Expenditures:				
Current:				
Streets and roads	--	183,940	183,940	--
Total Expenditures	<u>--</u>	<u>183,940</u>	<u>183,940</u>	<u>--</u>
Net Change in Fund Balances	--	38,819	38,819	--
Fund Balances, Beginning of Year	<u>(45,754)</u>	<u>(45,754)</u>	<u>(54,798)</u>	<u>(9,044)</u>
Fund Balances, End of Year	<u><u>\$ (45,754)</u></u>	<u><u>\$ (6,935)</u></u>	<u><u>\$ (15,979)</u></u>	<u><u>\$ (9,044)</u></u>

CITY OF PORTOLA

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 Snow Removal Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 85,000	\$ 85,000	\$ 95,356	\$ 10,356
Charges for services	--	--	6,000	6,000
Total Revenues	<u>85,000</u>	<u>85,000</u>	<u>101,356</u>	<u>16,356</u>
Expenditures:				
Current:				
Streets and roads	<u>162,669</u>	<u>226,126</u>	<u>232,098</u>	<u>(5,972)</u>
Total Expenditures	<u>162,669</u>	<u>226,126</u>	<u>232,098</u>	<u>(5,972)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(77,669)</u>	<u>(141,126)</u>	<u>(130,742)</u>	<u>10,384</u>
Other Financing Sources (Uses):				
Transfers in	<u>71,669</u>	<u>135,126</u>	<u>130,742</u>	<u>(4,384)</u>
Total Other Financing Sources (Uses)	<u>71,669</u>	<u>135,126</u>	<u>130,742</u>	<u>(4,384)</u>
Net Change in Fund Balances	(6,000)	(6,000)	--	6,000
Fund Balances, Beginning of Year	--	--	--	--
Fund Balances, End of Year	<u>\$ (6,000)</u>	<u>\$ (6,000)</u>	<u>\$ --</u>	<u>\$ 6,000</u>

CITY OF PORTOLA

Note to Required Supplementary Information For the Year Ended June 30, 2011

BUDGETS AND BUDGETARY ACCOUNTING

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

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

SUPPLEMENTARY INFORMATION

NONMAJOR SPECIAL REVENUE FUNDS

CITY OF PORTOLA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2011

	Gas Tax Sec 2105	Gas Tax Sec 2106	Community Development Block Grant
<u>Assets</u>			
Cash and investments	\$ 1,241	\$ 180	\$ 421,236
Interest receivable	1	--	473
Notes receivable	--	--	128,075
Due from other governmental agencies	--	--	11,786
Total Assets	\$ 1,242	\$ 180	\$ 561,570
 <u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ --	\$ --	\$ --
Accrued liabilities	180	180	213
Due to other funds	--	--	--
Total Liabilities	180	180	213
 Fund Balance:			
Nonspendable	--	--	128,075
Restricted	1,062	--	118,734
Assigned	--	--	314,548
Total Fund Balance	1,062	--	561,357
Total Liabilities and Fund Balance	\$ 1,242	\$ 180	\$ 561,570

continued

CITY OF PORTOLA

Combining Balance Sheet (continued)
 Nonmajor Special Revenue Funds
 June 30, 2011

	Gas Tax Sec 2107.5	Gas Tax Sec 2107	Total
<u>Assets</u>			
Cash and investments	\$ 10,612	\$ --	\$ 433,269
Interest receivable	13	--	487
Notes receivable	--	--	128,075
Due from other governmental agencies	--	3,308	15,094
Total Assets	\$ 10,625	\$ 3,308	\$ 576,925
 <u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ --	\$ 907	\$ 907
Accrued liabilities	--	319	892
Due to other funds	--	2,083	2,083
Total Liabilities	--	3,309	3,882
 Fund Balance:			
Nonspendable	--	--	128,075
Restricted	10,625	--	130,421
Assigned	--	(1)	314,547
Total Fund Balance	10,625	(1)	573,043
Total Liabilities and Fund Balance	\$ 10,625	\$ 3,308	\$ 576,925

CITY OF PORTOLA

Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2011

	Gas Tax Sec 2105	Gas Tax Sec 2106	Community Development Block Grant
Revenues:			
Use of money and property	\$ 14	\$ 7	\$ 4,375
Intergovernmental	11,563	10,232	22,455
Total Revenues	<u>11,577</u>	<u>10,239</u>	<u>26,830</u>
Expenditures:			
Current:			
Streets and roads	16,897	13,289	--
Public safety	--	--	--
Planning and community development	--	--	95,355
Total Expenditures	<u>16,897</u>	<u>13,289</u>	<u>95,355</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,320)</u>	<u>(3,050)</u>	<u>(68,525)</u>
Other Financing Sources (Uses):			
Transfers in	--	391	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>391</u>	<u>--</u>
Net Change in Fund Balances	(5,320)	(2,659)	(68,525)
Fund Balances, Beginning of Year	<u>6,382</u>	<u>2,659</u>	<u>629,882</u>
Fund Balances, End of Year	<u><u>\$ 1,062</u></u>	<u><u>\$ --</u></u>	<u><u>\$ 561,357</u></u>

continued

CITY OF PORTOLA

Statement of Revenues, Expenditures and
Changes in Fund Balances (continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2011

	<u>Gas Tax</u> <u>Sec 2107.5</u>	<u>Gas Tax</u> <u>Sec 2107</u>	<u>Total</u>
Revenues:			
Use of money and property	\$ 53	\$ --	\$ 4,449
Intergovernmental	<u>1,000</u>	<u>82,150</u>	<u>127,400</u>
Total Revenues	<u>1,053</u>	<u>82,150</u>	<u>131,849</u>
 Expenditures:			
Current:			
Streets and roads	1,001	66,471	97,658
Public safety	--	24,055	24,055
Planning and community development	<u>--</u>	<u>--</u>	<u>95,355</u>
Total Expenditures	<u>1,001</u>	<u>90,526</u>	<u>217,068</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures			
	<u>52</u>	<u>(8,376)</u>	<u>(85,219)</u>
 Other Financing Sources (Uses):			
Transfers in	<u>--</u>	<u>54,129</u>	<u>54,520</u>
Total Other Financing Sources (Uses)	<u>--</u>	<u>54,129</u>	<u>54,520</u>
 Net Change in Fund Balances			
	52	45,753	(30,699)
 Fund Balances, Beginning of Year			
	<u>10,573</u>	<u>(45,754)</u>	<u>603,742</u>
 Fund Balances, End of Year			
	<u>\$ 10,625</u>	<u>\$ (1)</u>	<u>\$ 573,043</u>

OTHER REPORTS



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Portola as of and for the year ended June 30, 2011, which collectively comprise the City of Portola's financial statements and have issued our report thereon dated January 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Compliance and Other Matters

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

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

Gallina LLP

Roseville, California
January 17, 2012