

**CITY OF PORTOLA  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**



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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Council Members  
City of Portola, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portola, California, (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

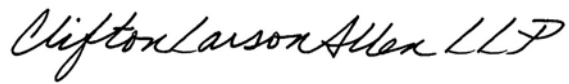
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Honorable Mayor and Council Members  
City of Portola

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Roseville, California  
February 7, 2019

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

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**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

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, 2018. It should be read in conjunction with the City's basic financial statements following this section.

**I. FINANCIAL HIGHLIGHTS**

**A. Government-Wide Financial Analysis**

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$18,651,084:

- \$14,231,372 represents the City's investment in capital assets, less any related outstanding debt used to acquire those assets (net investment in capital assets).
- \$1,111,930 is available for the City's ongoing obligations related to programs with external restrictions (restricted net position).
- \$3,307,782 is available to fund City programs for citizens and debt obligations to creditors (unrestricted net position).

The City's total net position increased by \$462,674 from the prior year:

- The \$364,121 decrease in net position net investment in capital assets represents infrastructure and other additions of \$441,660 less depreciation of \$882,637 and the retirement of related long-term debt of \$76,856.
- The \$61,621 decrease in restricted net position represents the change in resources that are subject to external restrictions on their use, and is detailed in the government-wide financial analysis section on page 6.

**B. Financial Analysis of the City's Funds**

The City's governmental funds combined ending fund balance of \$3,051,642 was an increase of \$11,440 from the prior year ending fund balance of \$3,040,202. Amounts available for spending include restricted, assigned, and unassigned fund balances; these totaled \$2,576,078, or 84% of ending fund balance. Of this amount, \$304,093 is restricted by law or externally imposed requirements.

**II. OVERVIEW OF THE FINANCIAL STATEMENTS**

**A. Government-Wide Financial Statements**

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

**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

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

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

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

#### **B. Fund Financial Statements**

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

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

The City maintains 6 individual governmental funds. On the financial statements for governmental funds, information is presented separately for the General Fund and for the State Transportation Improvement Plan funds. Data from nonmajor governmental funds are aggregated into a single column.

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

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

#### **C. Required Supplementary Information**

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

**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

**III. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

**Condensed Statement of Net Position  
June 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total		Total	
	2018	2017	2018	2017	2018	2017	Dollar Change	Percent Change
	Current and Other Assets	\$ 3,238,999	\$ 3,140,087	\$ 3,232,759	\$ 2,352,861	\$ 6,471,758	\$ 5,492,948	\$ 978,810
Capital Assets	9,569,062	9,903,332	5,491,139	5,597,846	15,060,201	15,501,178	(440,977)	-3%
Total Assets	<u>12,808,061</u>	<u>13,043,419</u>	<u>8,723,898</u>	<u>7,950,707</u>	<u>21,531,959</u>	<u>20,994,126</u>	<u>537,833</u>	<u>3%</u>
Deferred Outflows of Resources	109,822	76,636	154,661	95,237	264,483	171,873	92,610	54%
Current and Other Liabilities	167,381	83,573	52,653	39,860	220,034	123,433	96,601	78%
Long-Term Liabilities	346,189	299,031	2,486,460	2,482,836	2,832,649	2,781,867	50,782	2%
Total Liabilities	<u>513,570</u>	<u>382,604</u>	<u>2,539,113</u>	<u>2,522,696</u>	<u>3,052,683</u>	<u>2,905,300</u>	<u>147,383</u>	<u>5%</u>
Deferred Inflows of Resources	43,013	35,708	49,662	36,581	92,675	72,289	20,386	28%
Net Invested in Capital Assets	9,569,062	9,903,332	4,662,310	4,692,161	14,231,372	14,595,493	(364,121)	-2%
Restricted	281,718	324,265	830,212	849,286	1,111,930	1,173,551	(61,621)	-5%
Unrestricted	2,510,520	2,474,146	797,262	(54,780)	3,307,782	2,419,366	888,416	37%
Total Net Position	<u>\$ 12,361,300</u>	<u>\$ 12,701,743</u>	<u>\$ 6,289,784</u>	<u>\$ 5,486,667</u>	<u>18,651,084</u>	<u>18,188,410</u>	<u>462,674</u>	<u>3%</u>

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

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

Unrestricted net position represents 18% of the total net position and may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

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

**Statement of Activities  
For the Years Ended June 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total		Total	
	2018	2017	2018	2017	2018	2017	Dollar Change	Percent Change
<b>Program Revenues:</b>								
Charges for Services	\$ 150,536	\$ 110,805	\$ 2,014,812	\$ 1,987,077	\$ 2,165,348	\$ 2,097,882	\$ 67,466	3%
Operating Grants and Contributions	667,422	540,638	104,662	-	772,084	540,638	231,446	43%
Capital Grants and Contributions	188,981	2,155,757	-	-	188,981	2,155,757	(1,966,776)	-91%
<b>General Revenues:</b>								
Property Taxes	232,917	219,263	-	-	232,917	219,263	13,654	6%
Other Taxes	367,933	329,995	-	-	367,933	329,995	37,938	11%
Other Revenue	46,687	25,011	44,032	12,512	90,719	37,523	53,196	142%
Total Revenues	<u>1,654,476</u>	<u>3,381,469</u>	<u>2,163,506</u>	<u>1,999,589</u>	<u>3,817,982</u>	<u>5,381,058</u>	<u>(1,563,076)</u>	<u>-29%</u>
<b>Expenses:</b>								
General Government	263,503	288,515	-	-	263,503	288,515	(25,012)	-9%
Planning and Community Development	137,017	483,163	-	-	137,017	483,163	(346,146)	-72%
Public Safety	409,009	301,607	-	-	409,009	301,607	107,402	36%
Streets and Roads	852,333	1,034,333	-	-	852,333	1,034,333	(182,000)	-18%
Public Works	75,504	104,152	-	-	75,504	104,152	(28,648)	-28%
Parks and Recreation	257,553	252,002	-	-	257,553	252,002	5,551	2%
Water Service	-	-	695,001	711,052	695,001	711,052	(16,051)	-2%
Sewer Service	-	-	502,832	562,180	502,832	562,180	(59,348)	-11%
Solid Waste	-	-	162,556	145,970	162,556	145,970	16,586	11%
Total Expenses	<u>1,994,919</u>	<u>2,463,772</u>	<u>1,360,389</u>	<u>1,419,202</u>	<u>3,355,308</u>	<u>3,882,974</u>	<u>(527,666)</u>	<u>-14%</u>
Change in Net Position	(340,443)	917,697	803,117	580,387	462,674	1,498,084	(1,035,410)	-69%
Net Position - July 1	<u>12,701,743</u>	<u>11,784,046</u>	<u>5,486,667</u>	<u>4,906,280</u>	<u>18,188,410</u>	<u>16,690,326</u>	<u>1,498,084</u>	<u>9%</u>
Net Position - June 30	<u>\$ 12,361,300</u>	<u>\$ 12,701,743</u>	<u>\$ 6,289,784</u>	<u>\$ 5,486,667</u>	<u>\$ 18,651,084</u>	<u>\$ 18,188,410</u>	<u>\$ 462,674</u>	<u>3%</u>

- Governmental activities reported a \$340,443 decrease in net position, and business-type activities reported an increase of \$803,117, for a net increase of \$462,674.

**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.

**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

At June 30, 2018, the City's governmental funds reported combined ending fund balances of \$3,051,642. Approximately 84% of this total amount, or \$2,576,078, of the total fund balance is available to meet the City's ongoing general obligation to citizens and creditors. The remainder of fund balance represents amounts that are not in spendable form and is comprised of long-term notes receivable and advances. The State Transportation Improvement Plan (STIP) was a major fund in the 2017-2018 fiscal year. The construction phase of a project on Road A-15 was in the prior fiscal year. While the expenses are 100% reimbursed by the State the City is waiting for the project to be closed out in order to invoice the final payment. There should be no financial impact on the General Fund or the need to use fund balance for this project.

The General Fund is the main operating fund of the City. At June 30, 2018, total fund balance less the nonspendable portion of the General Fund was \$2,546,028 while total fund balance was \$3,021,592. As measures of the general fund's liquidity, it is useful to note that available fund balance represents 231% of total fund expenditures. It is the City's goal to maintain a minimum level of fund balance sufficient to preserve the City's credit rating in the event that the City needs financing and to maintain sufficient working capital. It is also the City's goal to maintain a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The City therefore adopted a policy that directs management to maintain a minimum level of unassigned fund balance in the City's General Fund as follows:

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

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

**Revenues Classified by Source  
Governmental Funds**

Revenue Sources	FY 2018		FY 2017		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Taxes	\$ 600,850	36%	\$ 549,258	15%	\$ 51,592	9%
Licenses and Permits	96,541	6%	57,646	2%	38,895	67%
Fines and Forfeitures	736	0%	345	0%	391	113%
Use of Money and Property	36,916	2%	21,968	1%	14,948	68%
Intergovernmental	852,739	52%	2,986,540	81%	(2,133,801)	-71%
Charges for Services	53,259	3%	52,814	1%	445	1%
Other	9,771	1%	3,043	0%	6,728	221%
Total	<u>\$ 1,650,812</u>	<u>100%</u>	<u>\$ 3,671,614</u>	<u>100%</u>	<u>\$ (2,020,802)</u>	<u>-55%</u>

Significant changes for major revenue sources are explained below.

- Property taxes increased \$51,592 as there were substantial increases in both Property tax and Sales Tax. A new large retail store came into the City limits helping to increase the Sales Tax.
- Building permits were up by approximately \$14,000 and there was a repayment to the City of franchise fees that had been withheld the prior year.

**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

- There was a continued increase in the dollar amount from fines and forfeitures brought in by law enforcement activities mainly due to the change in the Community Services Officer program.
- There was an increase in the Use of Money and Property due to increased interest rates.
- The large decrease in intergovernmental from 2017 was due to the completion of projects in the prior year including Grant funded projects and the ongoing A-15 project through STIP.
- The increase in "other" was due to a reimbursement from the State for the Fire related services.

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

<b>Expenditures by Function Governmental Funds</b>						
	FY 2018		FY 2017		Change	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General Government	\$ 230,333	14%	\$ 251,588	6%	\$ (21,255)	-8%
Planning and Community Development	137,017	8%	481,963	12%	(344,946)	-72%
Public Safety	570,834	35%	298,415	7%	272,419	91%
Streets and Roads	462,133	28%	2,828,941	69%	(2,366,808)	-84%
Public Works	66,969	4%	76,918	2%	(9,949)	-13%
Parks and Recreation	172,086	11%	145,426	4%	26,660	18%
Total Expenditures	<u>\$ 1,639,372</u>	<u>100%</u>	<u>\$ 4,083,251</u>	<u>100%</u>	<u>\$ (2,443,879)</u>	<u>-60%</u>

Significant changes for major functions are explained below:

- There was a reduction in legal fees recorded in the General Government Expenditures. Major grant expenditures are included in Planning and Community Development in 2017 including a public facilities CDBG grant. These projects were completed.
- Public safety increased due to the purchase of a Fire Truck and an increase in Sheriff services.
- Streets and Roads including snow removal decreased due to the construction phase expenditures in the prior year for the A-15 STIP project. Streets, snow removal and the A-15 STIP project are the major special revenue funds in the 2017-2018 fiscal year. All three of these funds can fluctuate greatly due to projects and the weather.
- Public Works had less payroll posted in 2018.
- **Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail. These funds include the following enterprise funds: Water Service Fund, Sewer Service Fund, and Solid Waste Fund. As of June 30, 2018 the proprietary (enterprise) funds net position was a combined \$6,289,784 with a net investment in capital assets of \$4,662,310 and a unrestricted net position of \$797,262.



**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

**BUDGETARY HIGHLIGHTS**

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

Differences between the original budget and the final amended budget are mainly due to the revenue and expenditures from Grant funds during the fiscal year such as the Fire Truck purchase and from Capital projects that are "reimbursed" and in many cases are not reflected in the original budget figures. The reimbursement from FEMA for storms in the prior year is also an example of this.

For the fiscal year 2017/2018 General Fund revenues were more than budget by \$31,553 and General Fund expenditures were \$43,453 less than budgeted. The City originally budgeted a decrease of \$22,466 in fund balance and increased by \$75,953. The major special revenue funds include Streets, Snow removal and the A-15 STIP project. It is difficult to budget the A-15 project ahead of time as these projects can be programmed and go on for years. Snow removal budgeting is also difficult with the main reason being the use of contract snow removal in heavy storm years.

**VI. CAPITAL ASSETS AND DEBT ADMINISTRATION**

**A. Capital Assets**

The change in capital assets for the Governmental Activities totaled \$334,270, net of depreciation for an ending balance of \$9,569,062.

Business-type capital assets for the fiscal year ending June 30, 2018, were \$5,491,139, net of depreciation. This is a decrease in capital assets of \$106,707. 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, 2018, the City had long-term debt outstanding of \$828,829. This is a decrease over June 30, 2017 of \$76,856. The entire long-term debt was attributable to Business-type activities. There is no long-term debt in the Governmental Activities.

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

**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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

For the 2017-2018 budget the process began as usual in February with City staff preparing draft level of services budgets for each area of the City. In February, City staff, the general public, and City Council participated in a FY 2017-2018 pre-budget preparation Goal Setting Workshop. The budget process continued through March, April and May with revisions to the level of services budgets, additions of "add ons" and discussion of what would be needed to provide a balanced budget.. The budget included step increases and a 1.9% Cost of living raise. The budgets included the urgent need for some equipment for Public Works as well as additional funding for street repairs. In order for the City Council to be able to make informed priority decisions, a report on the Fund Balances-Reserves for each of the City's budgeted funds was evaluated and prepared for City Council assessment. The critical need to maintain reserves is always in the forefront of finance discussions. The City has been able to fund major projects in advance of reimbursements because of the reserves that it currently maintains.

The 2018-2019 budget process followed the normal timeline for preparation. The 2018-2019 budget again included step increases for employees and also included 2.8% Cost of living increase. The 2018-2019 budget has used a projected \$105,412 of the General Fund's fund balance to eliminate a shortfall of revenues over expenditures. Close attention needs to be paid to budget amendments and the use of additional fund balance.

Despite revenue reductions and staffing shortages, the General Fund continues to support the services necessary for the residents of Portola, including fire, parks, planning, building, animal control, and law enforcement through a Sheriff's contract for services. The City has had some challenges with the Volunteer Fire Department and has contracted with neighboring Eastern Plumas Fire to perform this function. Since the 2018 Fiscal year end the City has hired a Code Compliance Officer to perform code enforcement, parking enforcement and service oriented duties as well as work on a plan for blight reduction. An emphasis on being a business friendly environment and attracting growth is evident but has not had a major impact on the budget. The City also continues to perform all its duties in the Streets, Water, Sewer, and Solid Waste.

With regard to the City Enterprise Funds the effects and impacts of changing state and federal government regulation is a constant challenge. But the major challenge the Enterprise Funds face is the aging infrastructure in the City. With no reserves for major repairs it may take some time for rates to cover the expenses. 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. . At June 30, 2018 the Solid Waste fund had finally paid back the money borrowed from the General Fund from prior year deficits. In the 2015-2016 fiscal year there was an increase in the amount that Solid Waste owes to the General Fund by the difference between the money set aside for landfill closure and the final cost of the closure. It has been an important goal of the City to close the landfill with the long-range potential to decrease fees. While the landfill is closed, new requirements from the State will make it very difficult to ever decrease the fees. The landfill closure fee that is currently being collected goes entirely to repay the General Fund for the Closure loan. It is anticipated that the General Fund will be fully repaid in approximately 3 years. Enterprise Funds are "business-

**CITY OF PORTOLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDED JUNE 30, 2018**

type” activities whose expenses need to be covered by the rate payers. The City Council will continue to review the need for any future rate increases each year during the budget process.

Subsequent to June 30, 2018 the Council addressed the CalPERS unfunded liability situation. In November 2018 the Council voted to pay down \$400,000 of the unfunded liability which has the potential to save over \$500,000 in interest over time. While CalPERS unfunded liability is a moving target, this is a major step for the City to try and manage the annual payments going forward.

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.

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

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**CITY OF PORTOLA  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and Investments	2,537,976	2,326,173	4,864,149
Restricted Assets:			
Restricted Cash	-	830,212	830,212
Imprest Cash	335	-	335
Accounts Receivable	26,175	304,632	330,807
Interest Receivable	10,703	11,787	22,490
Due From Other Governments	108,950	5,000	113,950
Loans and Notes Receivable, Net	309,815	-	309,815
Internal Balances	245,045	(245,045)	-
Capital Assets:			
Nondepreciable	3,733,405	191,376	3,924,781
Depreciable, Net	5,835,657	5,299,763	11,135,420
Total Assets	<u>12,808,061</u>	<u>8,723,898</u>	<u>21,531,959</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Pensions	<u>109,822</u>	<u>154,661</u>	<u>264,483</u>
<b>LIABILITIES</b>			
Accounts Payable	40,430	17,709	58,139
Accrued Salaries and Benefits Payable	8,921	5,992	14,913
Deposits	20,196	19,803	39,999
Unearned Revenue	97,834	5,000	102,834
Accrued Interest	-	4,149	4,149
Long-Term Liabilities:			
Portion Due or Payable Within One Year:			
Compensated Absences	7,898	7,271	15,169
Notes Payable	-	26,829	26,829
Portion Due or Payable After One Year:			
Compensated Absences	22,072	20,321	42,393
Notes Payable	-	802,000	802,000
Liability for Landfill Postclosure	-	1,237,469	1,237,469
Net Pension Liability	316,219	392,570	708,789
Total Liabilities	<u>513,570</u>	<u>2,539,113</u>	<u>3,052,683</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Pensions	<u>43,013</u>	<u>49,662</u>	<u>92,675</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	9,569,062	4,662,310	14,231,372
Restricted:			
Planning and Community Development	202,936	-	202,936
General Government	78,782	-	78,782
Capital Improvements	-	761,850	761,850
Debt Service	-	68,362	68,362
Unrestricted	<u>2,510,520</u>	<u>797,262</u>	<u>3,307,782</u>
Total Net Position	<u><u>12,361,300</u></u>	<u><u>6,289,784</u></u>	<u><u>18,651,084</u></u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental Activities:				
General Government	\$ 263,503	\$ 52,963	\$ 418,617	\$ -
Planning and Community Development	137,017	1,131	13,096	-
Public Safety	409,009	73,962	36,384	-
Streets and Roads	852,333	-	192,445	188,981
Public Works	75,504	-	-	-
Parks and Recreation	257,553	22,480	6,880	-
Total Governmental Activities	<u>1,994,919</u>	<u>150,536</u>	<u>667,422</u>	<u>188,981</u>
Business-Type Activities:				
Water Service	695,001	981,770	-	-
Sewer Service	502,832	696,670	86,880	-
Solid Waste	162,556	336,372	17,782	-
Total Business-Type Activities	<u>1,360,389</u>	<u>2,014,812</u>	<u>104,662</u>	<u>-</u>
Total City of Portola	<u>\$ 3,355,308</u>	<u>\$ 2,165,348</u>	<u>\$ 772,084</u>	<u>\$ 188,981</u>

**General Revenues**

Taxes:

Property Taxes

Sales and Use Taxes

Other

Unrestricted Interest and Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See accompanying Notes to Financial Statements.



Net (Expense) Revenue and  
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ 208,077	\$ -	\$ 208,077
(122,790)	-	(122,790)
(298,663)	-	(298,663)
(470,907)	-	(470,907)
(75,504)	-	(75,504)
(228,193)	-	(228,193)
(987,980)	-	(987,980)
-	286,769	286,769
-	280,718	280,718
-	191,598	191,598
-	759,085	759,085
(987,980)	759,085	(228,895)
232,917	-	232,917
300,809	-	300,809
67,124	-	67,124
36,916	31,017	67,933
9,771	13,015	22,786
647,537	44,032	691,569
(340,443)	803,117	462,674
12,701,743	5,486,667	18,188,410
\$ 12,361,300	\$ 6,289,784	\$ 18,651,084

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**BASIC FINANCIAL STATEMENTS –  
FUND FINANCIAL STATEMENTS**

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**CITY OF PORTOLA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	General	State Transportation Improvement Plan	Gas Tax 2107	Snow Removal	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and Investments	\$ 2,413,437	\$ -	\$ 2,331	\$ -	\$ 122,208	\$ 2,537,976
Imprest Cash	335	-	-	-	-	335
Notes Receivable	230,519	-	-	-	79,296	309,815
Accounts Receivable	22,795	-	-	3,380	-	26,175
Interest Receivable	10,242	-	-	-	461	10,703
Due From Other Funds	174,907	-	-	-	-	174,907
Advances to Other Funds	245,045	-	-	-	-	245,045
Due From Other Governmental Agencies	104,442	-	-	-	4,508	108,950
	<u>3,201,722</u>	<u>-</u>	<u>2,331</u>	<u>3,380</u>	<u>206,473</u>	<u>3,413,906</u>
Total Assets	<u>\$ 3,201,722</u>	<u>\$ -</u>	<u>\$ 2,331</u>	<u>\$ 3,380</u>	<u>\$ 206,473</u>	<u>\$ 3,413,906</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>						
Liabilities:						
Accounts Payable	\$ 34,975	\$ -	\$ 1,604	\$ 553	\$ 3,298	\$ 40,430
Accrued Salaries and Benefits Payable	7,149	-	727	806	239	8,921
Unearned Revenue	97,834	-	-	-	-	97,834
Deposits From Others	20,196	-	-	-	-	20,196
Due to Other Funds	-	172,886	-	2,021	-	174,907
Total Liabilities	160,154	172,886	2,331	3,380	3,537	342,288
Deferred Inflows of Resources:						
Unavailable Revenue	19,976	-	-	-	-	19,976
Total Deferred Inflows of Resources	19,976	-	-	-	-	19,976
Fund Balance:						
Nonspendable	475,564	-	-	-	-	475,564
Restricted	78,782	-	-	-	202,936	281,718
Assigned	22,375	-	-	-	-	22,375
Unassigned	2,444,871	(172,886)	-	-	-	2,271,985
Total Fund Balance	3,021,592	(172,886)	-	-	202,936	3,051,642
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 3,201,722</u>	<u>\$ -</u>	<u>\$ 2,331</u>	<u>\$ 3,380</u>	<u>\$ 206,473</u>	<u>\$ 3,413,906</u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION –  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2018**

<b>Fund Balance - Total Governmental Funds (From Previous Page)</b>	<b>\$ 3,051,642</b>
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital Assets Used in Governmental Activities are not Financial Resources and, therefore, are not Reported in the Governmental Funds.	9,569,062
Deferred Outflows of Resources as Reported in the Statement of Net Position	109,822
Deferred Inflows of Resources as Reported in the Statement of Net Position	(43,013)
Unavailable Revenues and Long-Term Assets Represent Amounts That are not Available to Fund Current Expenditures and, Therefore, are not Reported in the Governmental Funds:	
Unavailable Revenues	19,976
Compensated Absences	(29,970)
Net Pension Liability	<u>(316,219)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 12,361,300</u></b>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	General	State Transportation Improvement Plan	Gas Tax 2107	Snow Removal	Other Governmental Funds	Total
<b>REVENUES</b>						
Taxes	\$ 600,850	\$ -	\$ -	\$ -	\$ -	\$ 600,850
Licenses and Permits	96,541	-	-	-	-	96,541
Fines, Forfeitures and Penalties	736	-	-	-	-	736
Use of Money and Property	35,371	-	-	-	1,545	36,916
Intergovernmental	629,324	-	47,404	163,548	12,463	852,739
Charges for Services	53,259	-	-	-	-	53,259
Other Revenues	9,771	-	-	-	-	9,771
Total Revenues	<u>1,425,852</u>	<u>-</u>	<u>47,404</u>	<u>163,548</u>	<u>14,008</u>	<u>1,650,812</u>
<b>EXPENDITURES</b>						
Current:						
General Government	230,333	-	-	-	-	230,333
Planning and Community Development	90,640	-	-	-	46,377	137,017
Public Safety	543,419	-	27,415	-	-	570,834
Streets and Roads	-	28,846	242,750	187,239	3,298	462,133
Public Works	66,969	-	-	-	-	66,969
Parks and Recreation	172,086	-	-	-	-	172,086
Total Expenditures	<u>1,103,447</u>	<u>28,846</u>	<u>270,165</u>	<u>187,239</u>	<u>49,675</u>	<u>1,639,372</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	322,405	(28,846)	(222,761)	(23,691)	(35,667)	11,440
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	-	-	222,761	23,691	-	246,452
Transfers Out	(246,452)	-	-	-	-	(246,452)
Total Other Financing Sources (Uses)	<u>(246,452)</u>	<u>-</u>	<u>222,761</u>	<u>23,691</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	75,953	(28,846)	-	-	(35,667)	11,440
Fund Balances - Beginning of Year	<u>2,945,639</u>	<u>(144,040)</u>	<u>-</u>	<u>-</u>	<u>238,603</u>	<u>3,040,202</u>
Fund Balances - End of Year	<u>\$ 3,021,592</u>	<u>\$ (172,886)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 202,936</u>	<u>\$ 3,051,642</u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2018**

**Net Change to Fund Balance - Total Governmental Funds** \$ 11,440

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	\$ 340,997	
Less: Current Year Depreciation	<u>(675,267)</u>	(334,270)

Revenues in the Statement of Activities That do not Provide Current Financial Resources are not Reported as Revenues in the Governmental Funds.	3,664
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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	(252)
Change in Accrued Net Pension Liability	<u>(21,025)</u>

<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ (340,443)</u></u>
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**CITY OF PORTOLA  
STATEMENT OF FUND NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
<b>ASSETS</b>				
Current Assets:				
Cash and Investments	\$ 1,253,945	\$ 1,072,228	\$ -	\$ 2,326,173
Interest Receivable	6,216	5,571	-	11,787
Account Receivable	161,866	107,363	35,403	304,632
Due from Other Governments	-	-	5,000	5,000
Restricted Assets:				
Restricted Cash	367,053	463,159	-	830,212
Restricted Investment	-	-	-	-
Total Current Assets	<u>1,789,080</u>	<u>1,648,321</u>	<u>40,403</u>	<u>3,477,804</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	128,532	31,422	31,422	191,376
Depreciable, Net	<u>2,899,509</u>	<u>2,375,631</u>	<u>24,623</u>	<u>5,299,763</u>
Total Noncurrent Assets	<u>3,028,041</u>	<u>2,407,053</u>	<u>56,045</u>	<u>5,491,139</u>
Total Assets	4,817,121	4,055,374	96,448	8,968,943
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>77,755</u>	<u>67,697</u>	<u>9,209</u>	<u>154,661</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	10,922	5,794	993	17,709
Accrued Salaries and Benefits Payable	2,886	2,747	359	5,992
Deposits	19,803	-	-	19,803
Unearned Revenue	-	-	5,000	5,000
Accrued Interest	3,645	504	-	4,149
Liability for Compensated Absences	3,723	3,113	435	7,271
Notes Payable - Current Portion	<u>26,829</u>	<u>-</u>	<u>-</u>	<u>26,829</u>
Total Current Liabilities	67,808	12,158	6,787	86,753
Noncurrent Liabilities				
Liability for Compensated Absences	10,405	8,701	1,215	20,321
Advances From Other Funds	-	-	245,045	245,045
Landfill Closure and Postclosure	-	-	1,237,469	1,237,469
Notes Payable	802,000	-	-	802,000
Net Pension Liability	<u>194,090</u>	<u>174,188</u>	<u>24,292</u>	<u>392,570</u>
Total Noncurrent Liabilities	<u>1,006,495</u>	<u>182,889</u>	<u>1,508,021</u>	<u>2,697,405</u>
Total Liabilities	1,074,303	195,047	1,514,808	2,784,158
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>24,216</u>	<u>22,168</u>	<u>3,278</u>	<u>49,662</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	2,199,212	2,407,053	56,045	4,662,310
Restricted:				
Debt Service	68,362	-	-	68,362
Facility Fees	298,691	263,109	-	561,800
Capital Projects	-	200,050	-	200,050
Unrestricted	<u>1,230,092</u>	<u>1,035,644</u>	<u>(1,468,474)</u>	<u>797,262</u>
Total Net Position	<u>\$ 3,796,357</u>	<u>\$ 3,905,856</u>	<u>\$ (1,412,429)</u>	<u>\$ 6,289,784</u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Business-Type Activities - Enterprise Funds</u>			Total
	<u>Water Service</u>	<u>Sewer Service</u>	<u>Solid Waste</u>	
<b>OPERATING REVENUES</b>				
Fines	\$ 33,602	\$ 23,886	\$ 5,957	\$ 63,445
Charges for Services	948,168	672,784	330,415	1,951,367
Total Operating Revenues	<u>981,770</u>	<u>696,670</u>	<u>336,372</u>	<u>2,014,812</u>
<b>OPERATING EXPENSES</b>				
Salaries and Wages	259,875	217,799	30,622	508,296
Services and Supplies	291,359	183,389	66,805	541,553
Landfill Closure Costs	-	-	59,740	59,740
Depreciation	100,845	101,136	5,389	207,370
Total Operating Expenses	<u>652,079</u>	<u>502,324</u>	<u>162,556</u>	<u>1,316,959</u>
Operating Income (Loss)	329,691	194,346	173,816	697,853
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Interest Income (Loss)	19,212	16,545	(4,740)	31,017
Intergovernmental Revenue	-	86,880	17,782	104,662
Miscellaneous Revenue	12,890	125	-	13,015
Debt Service Interest and Fiscal Charges	<u>(42,922)</u>	<u>(508)</u>	<u>-</u>	<u>(43,430)</u>
Total Nonoperating Revenue (Expenses)	<u>(10,820)</u>	<u>103,042</u>	<u>13,042</u>	<u>105,264</u>
Changes in Net Position	318,871	297,388	186,858	803,117
Net Position - Beginning of Year	<u>3,477,486</u>	<u>3,608,468</u>	<u>(1,599,287)</u>	<u>5,486,667</u>
Net Position - End of Year	<u><u>\$ 3,796,357</u></u>	<u><u>\$ 3,905,856</u></u>	<u><u>\$(1,412,429)</u></u>	<u><u>\$ 6,289,784</u></u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Receipts From Customers	\$ 984,910	\$ 697,128	\$ 361,149	\$ 2,043,187
Cash Paid to Suppliers for Goods and Services	(283,892)	(178,975)	(137,289)	(600,156)
Cash Paid to Employees for Services	(236,971)	(198,047)	(27,711)	(462,729)
Net Cash Provided (Used) by Operating Activities	464,047	320,106	196,149	980,302
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Cash Repayments From (to) Other Funds	4,072	-	(214,193)	(210,121)
Intergovernmental Revenue	-	86,880	17,782	104,662
Miscellaneous Income	12,890	125	-	13,015
Net Cash Provided (Used) by Noncapital Financing Activities	16,962	87,005	(196,411)	(92,444)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal Repayments on Long-Term Debt	(48,671)	(28,185)	-	(76,856)
Interest Repayments Related to Capital Purposes	(42,946)	(258)	-	(43,204)
Payments Related to the Acquisition of Capital Assets	(73,446)	(27,217)	-	(100,663)
Net Cash Provided (Used) by Capital and Related Financing Activities	(165,063)	(55,660)	-	(220,723)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest Received or Paid	15,750	13,474	(4,740)	24,484
Net Cash Provided by Investing Activities	15,750	13,474	(4,740)	24,484
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	331,696	364,925	(5,002)	691,619
Cash and Cash Equivalents - Beginning of Year	1,289,302	1,170,462	5,002	2,464,766
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,620,998</u>	<u>\$ 1,535,387</u>	<u>\$ -</u>	<u>\$ 3,156,385</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>				
Cash and Cash Equivalents in Current Assets	\$ 1,253,945	\$ 1,072,228	\$ -	\$ 2,326,173
Cash and Cash Equivalents in Restricted Assets	367,053	463,159	-	830,212
Total Cash and Cash Equivalents	<u>\$ 1,620,998</u>	<u>\$ 1,535,387</u>	<u>\$ -</u>	<u>\$ 3,156,385</u>

See accompanying Notes to Financial Statements.

**CITY OF PORTOLA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
FISCAL YEAR ENDED JUNE 30, 2018**

	Business-Type Activities - Enterprise Funds			Total
	Water Service	Sewer Service	Solid Waste	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 329,691	\$ 194,346	\$ 173,816	\$ 697,853
Adjustments to Reconcile Operating Income (Loss) to Cash Flows From Operating Activities:				
Depreciation	100,845	101,136	5,389	207,370
Changes in Assets and Liabilities:				
(Increase) Decrease in:				
Utilities Receivable	3,140	458	24,777	28,375
Customer Deposits	1,499	-	-	1,499
Increase (Decrease) in:				
Accounts Payable	7,467	4,414	(448)	11,433
Accrued Expenses	(962)	568	29	(365)
Liability for Compensated Absences	3,453	2,973	357	6,783
Closure/Postclosure Liability	-	-	(10,296)	(10,296)
Net Pension Liability	18,914	16,211	2,525	37,650
Net Cash Provided (Used) by Operating Activities	<u>\$ 464,047</u>	<u>\$ 320,106</u>	<u>\$ 196,149</u>	<u>\$ 980,302</u>

See accompanying Notes to Financial Statements.

## **NOTES TO FINANCIAL STATEMENTS**

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

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Description of Reporting Entity**

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

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

The City had no blended or discretely presented component units as of June 30, 2018.

**B. Basis of Financial Presentation**

**1. Government-Wide Financial Statements**

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

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

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

**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**2. Fund Financial Statements**

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

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

The City reports the following major governmental funds:

- The *General Fund* is the primary operating fund of the City. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.
- The *State Transportation Improvement Plan (STIP) Fund* is used to account for projects that are funded using State Transportation Improvement Program monies.
- The *Gas Tax 2107 Fund* is used to account for State Gas Tax Funds and transactions associated with street maintenance and repair.
- The *Snow Removal Fund* is used to account for State Funds for Snow Removal and all associated costs to the City.

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

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

**C. Basis of Accounting**

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

**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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 inflows.

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

**D. Use of Estimates**

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

**E. Interfund Transactions and Balances**

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

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

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



**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

**H. Cash and Investments**

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

**I. Fair Value Measurements**

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

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

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

**J. Receivables**

Receivables consist of property taxes, sales taxes and grants from other governmental agencies. As of June 30, 2018, \$9,801 has been provided as an allowance for doubtful accounts because in the opinion of management the amount is not considered collectible.

**K. Compensated Absences**

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

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

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

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

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

**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**L. Pensions**

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

**M. Deferred Outflows/Inflows of Resources**

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

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

**NOTE 2 NET POSITION/FUND BALANCE**

**Net Position**

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

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

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

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

**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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.

**NOTE 3 CASH AND INVESTMENTS**

At June 30, 2018, total City cash and investments at fair value were as follows:

Petty Cash	\$	335
Cash in Bank		513,239
LAIF		5,181,122
Total		<u>\$ 5,694,696</u>

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

Total cash and investments at June 30, 2018 were presented on the City's financial statements as follows:

Cash and Investments	\$ 4,864,149
Imprest Cash	335
Restricted Assets:	
Cash	<u>830,212</u>
Total	<u><u>\$ 5,694,696</u></u>

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

**Investments**

At June 30, 2018, the City had the following investments:

	<u>Par</u>	<u>Cost</u>	<u>Fair Value</u>
Investments:			
Local Agency Investment Fund (LAIF)	<u>5,181,122</u>	<u>5,181,122</u>	<u>5,181,122</u>
Total Investments	<u><u>\$ 5,181,122</u></u>	<u><u>\$ 5,181,122</u></u>	<u><u>\$ 5,181,122</u></u>

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Interest Rate Risk**

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

**Credit Risk**

The City authorizes participation in the following types of investments: FDIC Insured Accounts, Local Agency Investment Fund, and United States Government Securities. All money market funds are funds reserved for the postclosure costs associated with the landfill. The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the City Investment Pool's fair value at June 30, 2018.

	Moody's	Portfolio
Local Agency Investment Fund (LAIF)	Unrated	100.00%
Total Pooled Investments		100.00%

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2018, the recorded amount of the City's deposits was \$513,239 and the bank balance was \$653,504. Of the bank statement balance, \$250,000 was covered by federal depository insurance and \$403,504 was subject to collateralization.

**Local Agency Investment Fund**

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

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. At June 30, 2018, the City's investment position in LAIF was \$5,181,122 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 \$88,817,956,137. Of that amount, 2.53% was invested in structured notes and asset-backed securities with the remaining 97.47% invested in other non-derivatives financial reports.

**Fair Value Measurement**

The City categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. LAIF is the City's only investment and it is measured on amortized cost basis as of June 30, 2018.

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 LOANS AND NOTES RECEIVABLE**

During the fiscal year ended June 30, 2012, the City extended a loan to Eastern Plumas Health Care District in the amount of \$348,000. The loan bears initial interest of 1.48% per year to be adjusted annually to reflect LAIF interest rate plus 1%. The term of the loan is 168 months. As of June 30, 2018, the outstanding balance was \$230,519. Additionally, the City has a loan receivable in the amount of \$28,161, which is comprised of loans to individuals for community development. The City also issued Community Development Block Grant (CDBG) loans in the amount of \$51,135. The total loans and notes receivable at June 30, 2018 is \$309,815.

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance June 30, 2018</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 746,277	\$ -	\$ -	\$ 746,277
Construction in Progress	2,963,153	28,847	(4,872)	2,987,128
Total Capital Assets, Not Being Depreciated	3,709,430	28,847	(4,872)	3,733,405
Capital Assets, Being Depreciated:				
Infrastructure	10,603,983	-	-	10,603,983
Buildings and Improvements	1,680,115	-	-	1,680,115
Machinery and Equipment	1,302,734	317,022	-	1,619,756
Total Capital Assets, Being Depreciated	13,586,832	317,022	-	13,903,854
Less Accumulated Depreciation for:				
Infrastructure	(5,289,086)	(528,094)	-	(5,817,180)
Buildings and Improvements	(977,407)	(85,788)	-	(1,063,195)
Machinery and Equipment	(1,126,437)	(61,385)	-	(1,187,822)
Total Accumulated Depreciation	(7,392,930)	(675,267)	-	(8,068,197)
Total Capital Assets, Being Depreciated, Net	6,193,902	(358,245)	-	5,835,657
Governmental Activities Capital Assets, Net	<u>\$ 9,903,332</u>	<u>\$ (329,398)</u>	<u>\$ (4,872)</u>	<u>\$ 9,569,062</u>

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

<u>Business-Type Activities</u>	Balance July 1, 2017	Additions	Transfers and Retirements	Balance June 30, 2018
Capital Assets, Not Being Depreciated:				
Land	\$ 62,844	\$ -	\$ -	\$ 62,844
Construction in Progress	188,742	-	(60,210)	128,532
Total Capital Assets, Not Being Depreciated	251,586	-	(60,210)	191,376
Capital Assets, Being Depreciated:				
Buildings and Improvements	8,444,821	-	60,210	8,505,031
Machinery and Equipment	1,102,157	100,663	-	1,202,820
Total Capital Assets, Being Depreciated	9,546,978	100,663	60,210	9,707,851
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,040,866)	(165,911)	-	(3,206,777)
Machinery and Equipment	(1,159,852)	(41,459)	-	(1,201,311)
Total Accumulated Depreciation	(4,200,718)	(207,370)	-	(4,408,088)
Total Capital Assets, Being Depreciated, Net	5,346,260	(106,707)	60,210	5,299,763
Business-Type Activities, Net	<u>\$ 5,597,846</u>	<u>\$ (106,707)</u>	<u>\$ -</u>	<u>\$ 5,491,139</u>

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

Parks and Recreation	104,715
Public Safety	35,861
Public Works	2,041
Snow Removal	7,969
Streets and Roads	494,444
Total Depreciation Expense - Governmental Activities	<u>\$ 675,267</u>
Business-Type Activities:	
Water Fund	\$ 100,845
Sewer Fund	101,136
Solid Waste Fund	5,389
Total Depreciation Expense - Business-Type Activities	<u>\$ 207,370</u>



**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 6 LONG-TERM LIABILITIES**

Long-term liabilities at June 30, 2018 consisted of the following:

<u>Business-Type Activities</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2018</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	\$ 828,829
Total Business-Type Activities					<u>\$ 1,173,000</u>	<u>\$ 828,829</u>

The following is a summary of long-term liabilities transactions for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustment</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:						
Compensated Absences	\$ 29,718	\$ 19,354	\$ (19,102)	\$ -	\$ 29,970	\$ 7,898
Total	<u>\$ 29,718</u>	<u>\$ 19,354</u>	<u>\$ (19,102)</u>	<u>\$ -</u>	<u>\$ 29,970</u>	<u>\$ 7,898</u>
Business-Type Activities:						
Notes Payable	\$ 905,685	\$ -	\$ (76,856)	\$ -	828,829	\$ 26,829
Postclosure Costs	1,247,765	59,740	-	(70,036)	1,237,469	-
Compensated Absences	20,809	17,818	(11,035)	-	27,592	7,271
Total	<u>\$ 2,174,259</u>	<u>\$ 77,558</u>	<u>\$ (87,891)</u>	<u>\$ (70,036)</u>	<u>\$ 2,373,425</u>	<u>\$ 34,100</u>

As of June 30, 2018, annual debt service requirements of business-type activities to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 26,829	\$ 41,450
2020	29,000	40,100
2021	30,000	38,650
2022	32,000	37,150
2023	33,000	35,550
2024-2028	192,000	151,150
2029-2033	245,000	98,200
2034-2038	241,000	30,800
Total	<u>\$ 828,829</u>	<u>\$ 473,050</u>

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7 INTERFUND TRANSACTIONS AND BALANCES**

The composition of interfund balances as of June 30, 2018 is as follows:

**Due To/From Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	STIP	\$ 172,886	
	Snow Removal	<u>2,021</u>	
		<u>\$ 174,907</u>	To cover cash deficit expected to be recovered through future revenues.

**Advances To/From Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Solid Waste	<u>\$ 245,045</u>	To cover cash deficit expected to be recovered through future revenues.

**Transfers:**

Transfers are used to subsidize various City operations. The following schedule briefly summarizes the City's transfer activity for the fiscal year ended June 30, 2018:

<u>Transfer From</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Gax Tax 2107	\$ 222,761
	Snow Removal	<u>23,691</u>
		<u>\$ 246,452</u>

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 8 FUND DISCLOSURES**

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

Enterprise Funds:	
Solid Waste Fund	<u>\$ (1,412,429)</u>
Special Revenue Funds:	
STIP	<u>\$ (172,886)</u>

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

The STIP Fund has a deficit fund balance of \$172,886, which is expected to be eliminated by future revenues and general fund transfers, if needed.

**NOTE 9 DEFINED BENEFIT PENSION PLANS**

**A. General Information about the Pension Plans**

**1. Plan Description**

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

**2. Benefits Provided**

All pension plans provide benefits, upon retirement, disability, or death of members. Retirement benefits are based on years of service, final average compensation, and retirement age. Employees terminating before accruing five years of retirement service credit forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within a prescribed time period. Non-vested

**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

employees who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Employees who terminate service after earning five years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Differences between expected and actual experience for vested and nonvested benefits may result in an increase or decrease to pension expense and net pension liability.

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

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

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

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

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

### 3. Employees Covered

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

### 4. Contributions

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

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**B. Net Pension Liability**

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**1. Actuarial Assumptions**

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>PEPRA</u>
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal	
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varies by Entry Age and Service	
Investment Rate of Return	7.15%(1)	7.15%(1)
Mortality	Derived Using CalPERS' Membership Data for All Funds	

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a April 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

**2. Change of Assumption**

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate changed from 7.65% (net of administrative expense in 2016) to 7.15% as of the June 30, 2017 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

**3. Discount Rate**

The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of

**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

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

The long-term expected real rates by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018.

**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**C. Changes in the Net Pension Liability**

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

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

	1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
Net Pension Liability	\$ 1,158,207	\$ 708,789	\$ 336,574

**2. Pension Plan Fiduciary Net Position**

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

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

For the year ended June 30, 2018, the City recognized pension expense of \$123,808. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,099	\$ 15,743
Changes in Assumptions	136,341	10,396
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	31,614	66,536
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	30,834	
City Contribution Subsequent to the Measurement Date	64,595	
Total	\$ 264,483	\$ 92,675

\$64,595 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts



**CITY OF PORTOLA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Year Ending June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 19,815
2020	66,667
2021	39,039
2022	(18,308)
Total	\$ 107,213

**NOTE 10 OTHER POST-EMPLOYMENT BENEFITS**

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

**NOTE 11 LANDFILL CLOSURE AND POSTCLOSURE CARE COST**

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

As of June 30, 2018, the City's estimated liability for postclosure maintenance costs for the landfill was \$1,237,469. This estimate is based on the amount that would be paid if all equipment, facilities, and services required to close and/or monitor the landfills were acquired as of the balance sheet date. The costs for landfill postclosure maintenance costs are based on yearly estimates, reviewed by the California Integrated Waste Management Board, as prepared by TGV Solid Waste, Inc. Actual costs may be higher due to inflation, change in technology, or changes in regulations. The City has applied the annual inflation factor to the liability each year and has reduced the liability by actual expenses incurred.

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

**CITY OF PORTOLA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 12 RISK MANAGEMENT**

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

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

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

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

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

The City is subject to various lawsuits, inverse condemnation cases, personnel actions, and other actions incidental to the ordinary course of City operations. In the opinion of the City attorney, with the exception of the item discussed below, the total potential claims against the City covered by insurance resulting from litigation would not materially affect the financial statements of the City at June 30, 2018.

**NOTE 14 EXCESS EXPENDITURES OVER BUDGET**

The City had expenditures that exceeded its budget in the General Fund by \$521 for Planning and Community Development, \$1,618 for Public Safety, and in the Gas Tax Fund by \$1,415 for Public Safety.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF PORTOLA  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/  
(ASSET) AND RELATED RATIOS  
YEAR ENDED JUNE 30, 2018**

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

Last 10 Fiscal Years\*

	Reporting Date <i>Measurement Date</i>			
	6/30/2018 <u>6/30/2017</u>	6/30/2017 <u>6/30/2016</u>	6/30/2016 <u>6/30/2015</u>	6/30/2015 <u>6/30/2014</u>
Proportionate Share of the Net Pension Liability	\$ 708,789	\$ 577,890	\$ 394,917	\$ 237,694
Proportion of the Net Pension Liability	0.018%	0.017%	0.014%	0.010%
Covered Payroll	\$ 259,958	\$ 317,876	\$ 337,555	\$ 580,058
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	272.7%	181.8%	117.0%	41.0%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.39%	75.87%	79.89%	81.15%

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

**CITY OF PORTOLA  
SCHEDULE OF PENSION PLAN CONTRIBUTIONS  
YEAR ENDED JUNE 30, 2018**

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

Last 10 Fiscal Years\*

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Actuarially Determined Contribution	\$ 48,061	\$ 48,041	\$ 52,222	\$ 24,089
Contributions in Relation to the Actuarially Determined Contributions	<u>64,595</u>	<u>45,970</u>	<u>43,236</u>	<u>41,882</u>
Contributions Deficiency (Excess)	<u>\$ (16,534)</u>	<u>\$ 2,071</u>	<u>\$ 8,986</u>	<u>\$ (17,793)</u>
Covered Payroll	\$ 183,305	\$ 259,958	\$ 317,876	\$ 337,555
Contributions as a Percentage of Covered Payroll	35.24%	17.68%	13.60%	12.41%

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

**CITY OF PORTOLA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 515,800	\$ 575,800	\$ 600,850	\$ 25,050
Licenses and Permits	56,600	81,100	96,541	15,441
Fines, Forfeitures and Penalties	-	-	736	736
Use of Money and Property	14,113	33,113	35,371	2,258
Intergovernmental	254,500	615,348	629,324	13,976
Charges for Services	47,954	47,954	53,259	5,305
Other Revenues	-	40,984	9,771	(31,213)
Total Revenues	<u>888,967</u>	<u>1,394,299</u>	<u>1,425,852</u>	<u>31,553</u>
<b>EXPENDITURES</b>				
Current:				
General Government	223,570	235,293	230,333	4,960
Planning and Community Development	83,720	90,119	90,640	(521)
Public Safety	242,939	543,801	543,419	382
Public Works	90,581	90,581	66,969	23,612
Parks and Recreation	132,406	187,106	172,086	15,020
Total Expenditures	<u>773,216</u>	<u>1,146,900</u>	<u>1,103,447</u>	<u>43,453</u>
Excess (Deficiency) of Revenues Over Expenditures	115,751	247,399	322,405	75,006
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(138,217)	(246,452)	(246,452)	-
Total Other Financing Sources (Uses)	<u>(138,217)</u>	<u>(246,452)</u>	<u>(246,452)</u>	<u>-</u>
Net Change in Fund Balances	(22,466)	947	75,953	75,006
Fund Balances - Beginning of Year	<u>2,945,639</u>	<u>2,945,639</u>	<u>2,945,639</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 2,923,173</u>	<u>\$ 2,946,586</u>	<u>\$ 3,021,592</u>	<u>\$ 75,006</u>

**CITY OF PORTOLA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**STATE TRANSPORTATION IMPROVEMENT FUND**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
Streets and Roads	-	28,846	28,846	-
Total Expenditures	<u>-</u>	<u>28,846</u>	<u>28,846</u>	<u>-</u>
Net Change in Fund Balances	-	(28,846)	(28,846)	-
Fund Balances - Beginning of Year	<u>(144,040)</u>	<u>(144,040)</u>	<u>(144,040)</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ (144,040)</u>	<u>\$ (172,886)</u>	<u>\$ (172,886)</u>	<u>\$ -</u>



**CITY OF PORTOLA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL**  
**GAS TAX 2107 FUND**  
**FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 50,352	\$ 50,352	\$ 47,404	\$ (2,948)
Total Revenues	<u>50,352</u>	<u>50,352</u>	<u>47,404</u>	<u>(2,948)</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	26,000	26,000	27,415	(1,415)
Streets and Roads	<u>125,823</u>	<u>253,535</u>	<u>242,750</u>	<u>10,785</u>
Total Expenditures	<u>151,823</u>	<u>279,535</u>	<u>270,165</u>	<u>9,370</u>
Excess (Deficiency) of Revenues Over Expenditures	(101,471)	(229,183)	(222,761)	6,422
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	<u>88,900</u>	<u>222,761</u>	<u>222,761</u>	-
Total Other Financing Sources (Uses)	<u>88,900</u>	<u>222,761</u>	<u>222,761</u>	-
Net Change in Fund Balances	(12,571)	(6,422)	-	6,422
Fund Balances - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ (12,571)</u>	<u>\$ (6,422)</u>	<u>\$ -</u>	<u>\$ 6,422</u>

**CITY OF PORTOLA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – BUDGET AND ACTUAL  
SNOW REMOVAL FUND  
FISCAL YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 162,500	\$ 162,500	\$ 163,548	\$ 1,048
Total Revenues	<u>162,500</u>	<u>162,500</u>	<u>163,548</u>	<u>1,048</u>
<b>EXPENDITURES</b>				
Current:				
Streets and Roads	<u>211,816</u>	<u>239,033</u>	<u>187,239</u>	<u>51,794</u>
Total Expenditures	<u>211,816</u>	<u>239,033</u>	<u>187,239</u>	<u>51,794</u>
Excess (Deficiency) of Revenues Over Expenditures	(49,316)	(76,533)	(23,691)	52,842
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	<u>49,316</u>	<u>23,691</u>	<u>23,691</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>49,316</u>	<u>23,691</u>	<u>23,691</u>	<u>-</u>
Net Change in Fund Balances	-	(52,842)	-	52,842
Fund Balances - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ (52,842)</u>	<u>\$ -</u>	<u>\$ 52,842</u>

**CITY OF PORTOLA  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

**BUDGETS AND BUDGETARY ACCOUNTING**

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

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

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

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**SUPPLEMENTARY INFORMATION**

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**NONMAJOR SPECIAL REVENUE FUNDS**

**CITY OF PORTOLA  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2018**

	Road Maintenance and Rehabilitation Account	Community Development Block Grant	Total
<b>ASSETS</b>			
Cash and Investments	\$ 7,955	\$ 114,253	\$ 122,208
Due from other governments	4,508	-	4,508
Interest Receivable	30	431	461
Notes Receivable, Net	-	79,296	79,296
Total Assets	<u>\$ 12,493</u>	<u>\$ 193,980</u>	<u>\$ 206,473</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts Payable	\$ 3,298	\$ -	\$ 3,298
Accrued Salaries and Benefits Payable	-	239	239
Total Liabilities	<u>3,298</u>	<u>239</u>	<u>3,537</u>
Fund Balance:			
Restricted	<u>9,195</u>	<u>193,741</u>	<u>202,936</u>
Total Fund Balance	<u>9,195</u>	<u>193,741</u>	<u>202,936</u>
Total Liabilities and Fund Balance	<u>\$ 12,493</u>	<u>\$ 193,980</u>	<u>\$ 206,473</u>



**CITY OF PORTOLA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Road Maintenance and Rehabilitation Account</u>	<u>Community Development Block Grant</u>	<u>Total</u>
<b>REVENUES</b>			
Use of Money and Property	\$ 30	\$ 1,515	\$ 1,545
Intergovernmental	12,463	-	12,463
Total Revenues	<u>12,493</u>	<u>1,515</u>	<u>14,008</u>
<b>EXPENDITURES</b>			
Current:			
Streets and Roads	3,298	-	3,298
Planning and Community Development	-	46,377	46,377
Total Expenditures	<u>3,298</u>	<u>46,377</u>	<u>49,675</u>
Net Change in Fund Balances	9,195	(44,862)	(35,667)
Fund Balances - Beginning of Year	<u>-</u>	<u>238,603</u>	<u>238,603</u>
Fund Balances - End of Year	<u>\$ 9,195</u>	<u>\$ 193,741</u>	<u>\$ 202,936</u>

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## **OTHER REPORTS**

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

Honorable Mayor and Council Members  
Portola, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portola (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise The City of Portola's basic financial statements, and have issued our report thereon dated February 7, 2019.

**Internal Control over Financial Reporting**

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

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

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

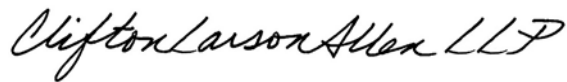
Honorable Mayor and Council Members  
City of Portola

**Compliance and Other Matters**

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

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Roseville, California  
February 7, 2019