

**TOWN OF PORTOLA VALLEY
BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
JUNE 30, 2015**

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TOWN OF PORTOLA VALLEY
Basic Financial Statements
For the Year Ended June 30, 2015
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Town Council
Town of Portola Valley

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Portola Valley as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town'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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Town'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 Town'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, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2015, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the fiscal year ended June 30, 2015 and required a prior period adjustment of net position as discussed in Note 7 to the financial statements:

Statement No. 68 – *Accounting and Financial Reporting for Pensions*

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other required Supplementary Information 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 Town's basic financial statements as a whole. The Supplemental Information are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maze & Associates

Pleasant Hill, California
November 24, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This analysis of the Town of Portola Valley's (Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS:

- The assets of the Town exceeded its liabilities of June 30, 2015 by \$43.3 million, which represents the net position.
- The Town's net position decreased \$1,042,335 for year ended June 30, 2015. This was primarily due to the recording of a \$957,322 Net Pension Liability and a \$98,814 increase to the Other Post-Employment Benefit (OPEB) obligation.
- Two required accounting statements were implemented:
 - Governmental Accounting Standard Board Statement No. 68 (GASB 68) – Financial Reporting for Pensions and Accounting, an amendment of GASB Statement No. 27 – Accounting for Pensions by State and Local Governmental Employers, and
 - Governmental Accounting Standard Board Statement No. 71 (GASB 71) – Pension Transition for Contributions Made Subsequent to the Measurement Date
- The government-wide statements reflect a \$1 million net pension liability which was accompanied by a prior year restatement.

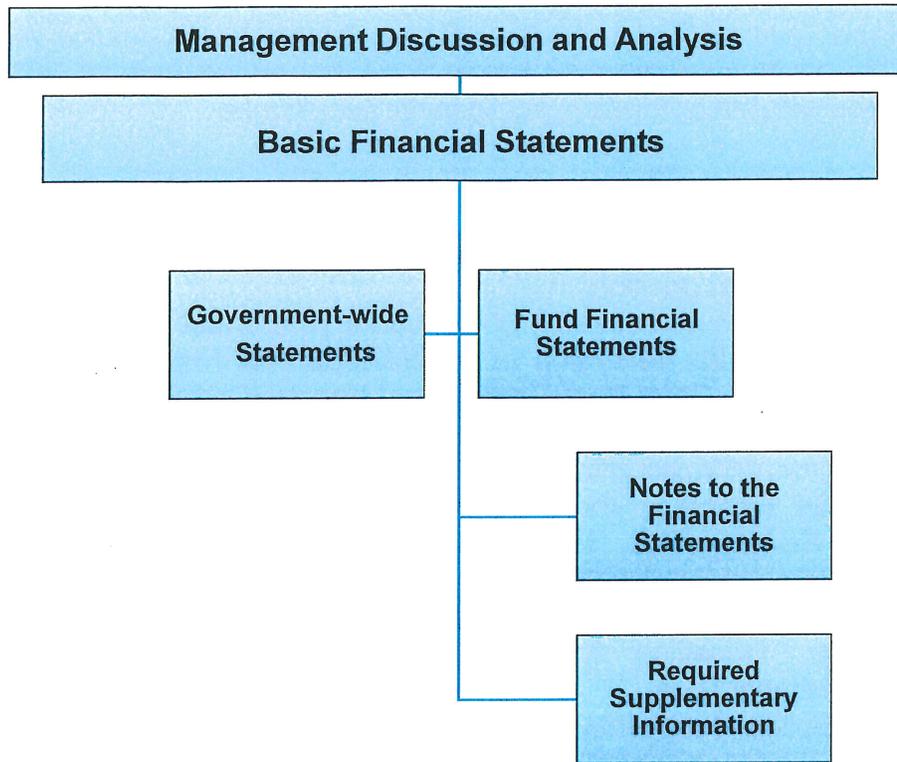
OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis serves as an introduction to the Town's basic financial statements that are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements for further information and analysis. The *government-wide* and the *fund financial statements* present two different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *short-term and long-term* information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Town's financial information, reporting these operations in *more detail* than the government-wide financial statements.
- The *governmental funds statements* and the *agency funds statements* tell how basic services such as operations, administration, and restricted funds were financed in the short-term as well as what remains for future spending

The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data analysis. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Organization of the Town of Portola Valley's Financial Report



Government-Wide Financial Statements:

The government-wide financial statements present the financial picture of the Town and provide readers with a broad view of the Town's finances. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The first of the government-wide statements is the *Statement of Net Position*. The *Statement of Net Position* reports the difference between the Town's total assets and total liabilities and includes all the Town's capital assets and all its long-term debt.

Although the *Statement of Net Position* reports a total net position of \$43.3 million, the Town has restrictions over the use of these funds. The investment in land, buildings, and equipment (capital assets, net of related debt) is necessary for the successful operation of the Town. Governmental laws segregate funds and place restrictions on spending. This should be considered when reviewing the report.

The second of the government-wide financial statements is the *Statement of Activities*. This statement shows the result of operations that caused net position to change from the prior year to the amount reported on the *Statement of Net Position* as of June 30, 2015. This statement answers the question, "How did we do financially during fiscal year 2015?" This change in net position is important because it tells the reader whether the financial position has improved or diminished for the Town as a whole. The causes of this change may be the result of many factors. To assess the Town's overall health, consideration should be given to additional non-financial factors such as building and land improvements, governmental mandates and staffing levels.

The *Statement of Activities* classifies expenses by functional area. The report also shows corresponding charges for services and restricted grants for each function that help support the expenses. The resulting Net (Expenses) Revenue and Changes in Net Position shows the remaining expenses not supported by charges for services and restricted grants. General revenues are then applied to the remaining expenses resulting in the total change in net position.

Fund Financial Statements:

The fund financial statements provide detailed information about the Town's major funds, defined as funds having significant activities and balances in the current year. Non-major funds are combined in a single column, referenced in the Supplemental section of this report.

Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs. These are not reflective of the Town as a whole. It is important to note that:

- Some funds are required to be established by State law.
- The Town establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

The fund financial statements include statements for governmental funds only. These are considered major funds and include:

- The General Fund – Most of the Town's basic services and financial resources are contained in this fund.
- Open Space Restricted Fund – This fund accounts for monies accrued from special voter-approved utility tax. It is used to support services for open space within the Town.
- Inclusionary-in-Lieu Fund – This fund accounts for fees that can only be used for affordable housing.
- Measure A Fund – This fund accounts for sales revenue that is restricted for the improvement of local transportation and road maintenance services.

The governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations are provided for both the governmental funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in fund balances to facilitate this comparison.

With the implementation of GASB-54 in 2011, the usefulness of fund balance information has been enhanced by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In the case of the Town's statements, fund balances within the General Fund that were formerly classified as "designated" by the Council are now reclassified as "assigned" fund balances. In the case of the Town's loan receivable and the stock donation, these have now been reclassified as "non-spendable" fund balance.

Notes to Basic Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information:

In addition to the basic financial statements, this report also presents certain Required Supplementary Information) including the Town's budgetary comparison schedules for the General, Open Space Restricted, Inclusionary-in-Lieu and Road Impact Fee funds.

Other Supplementary Information:

Supplementary schedules concerning balance sheets and changes in fund balances for all other funds are presented immediately following the Required Supplementary Information. Financial activity related to the Town's agency funds (maintenance districts) is also presented separately in this section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

In the following tables, the information for prior fiscal year 2014 was not restated for GASB 68 and 71 because all information required to restate prior year amounts was not readily available.

Statement of Net Position:

The Town's net position was less as of June 30, 2015 than the year before, decreasing 2.2% from \$44.3 million to \$43.3 million. The following are major components of the Town's net position:

Town of Portola Valley
 Condensed Statement of Net Position

	As of		Change	
	6/30/2015	6/30/2014	Amount	Percent
Assets:				
Other Assets	\$ 12,853,191	\$ 13,507,726	\$ (654,535)	-4.8%
Capital Assets, Net	32,645,180	32,261,335	383,845	1.2%
Total Assets	45,498,371	45,769,061	(270,690)	-0.6%
Deferred Outflows	1,042,335			
Liabilities:				
Current Liabilities	1,842,956	1,408,294	434,662	30.9%
Long-term Liabilities	1,056,136	49,648	1,006,488	2027.2%
Total Liabilities	2,899,092	1,457,942	1,441,150	98.8%
Deferred Inflows	322,771			
Net Position:				
Investment in Capital Assets,	32,645,180	32,261,335	383,845	1.2%
Restricted	7,887,936	7,329,700	558,236	7.6%
Unrestricted	2,785,727	4,720,084	(1,934,357)	-41.0%
Total Net Position	\$ 43,318,843	\$ 44,311,119	\$ (992,276)	-2.2%

The long-term liabilities reflect an increase of \$1 million in net pension liability from the prior year due to the implementation of GASB 68 and 71 for pension accounting. The Town's net position of \$43.3 million consists of \$32.6 million net investment in capital assets less \$7.9 million in restricted net assets. Restricted net assets are restricted by State law, municipal code and contractual obligation to be utilized for public works, safety and open space. The Town has \$2.8 million in unrestricted assets that represents funds that are not restricted by law; however \$1.3 million of these funds remain assigned by the Town for special programs.

The Town uses these capital assets to provide services to the Town's populace; consequently, these assets are not available for future spending. The unrestricted amount of \$2.8 million as of June 30, 2015 includes vacation leave, benefits payable, the net OPEB obligation and the net pension liability.

Statement of Activities:

Town of Portola Valley
 Condensed Statement of Activities

	Fiscal Year Ended		Change	
	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Amount</u>	<u>Percent</u>
Revenues				
Program Revenues:				
Charges for Services	\$ 1,018,884	\$ 1,139,452	\$(120,568)	-10.6%
Grants and Contributions	843,024	916,625	(73,601)	-8.0%
General Revenues:				
Property Taxes	2,434,575	2,330,411	104,164	4.5%
Agency Revenues	373,206	529,171	(155,965)	-29.5%
Franchise Fees	266,115	269,927	(3,812)	-1.4%
Utility Users Tax	744,149	795,507	(51,358)	-6.5%
Investment Earnings	32,847	27,709	5,138	18.5%
Miscellaneous	13,915	34,561	(20,646)	-59.7%
Total Revenues	<u>5,726,715</u>	<u>6,043,363</u>	<u>(316,648)</u>	<u>-5.2%</u>
Expenses:				
General Government	3,109,570	2,781,846	327,724	11.8%
Parks and Recreation	258,569	211,691	46,878	22.1%
Town Center Facilities	636,219	593,310	42,909	7.2%
Public Safety	943,456	925,266	18,190	2.0%
Public Works	573,717	479,134	94,583	19.7%
Miscellaneous Expenses	-	-	-	0.0%
Total Expenses	<u>5,521,531</u>	<u>4,991,247</u>	<u>530,284</u>	<u>10.6%</u>
Change in Net Assets	205,184	1,052,114	(846,930)	-80.5%
Net Position - Beginning*	43,113,659	43,259,005	(145,346)	-0.3%
Net Position - Ending	<u>\$43,318,843</u>	<u>\$44,311,119</u>	<u>\$(92,276)</u>	<u>-2.2%</u>

**6/30/15 beginning net position was adjusted due to implementation of GASB 68/71. Prior year data was not available to restate comparative data.*

The Town's total revenues for 2015 shows \$5.7 million compared to total revenues of \$6 million for the previous year. This is due to decreases in Agency, Utility User's Tax and Miscellaneous revenues.

Other Observations for 2015:

- Parks and Recreation expenses increased by 22.1% due to the outsourcing of landscape maintenance services.
- Public Works expenses increased by 19.7% due to expenditures for engineering support, roads and trails maintenance, and the Alpine Road Project.

FUND FINANCIAL STATEMENT ANALYSIS

As the Town completed the year, its major governmental funds (General Fund, Open Space Restricted Fund, Inclusionary-in-Lieu Fund, and Measure A Fund) reported combined fund balances of \$11 million, a decrease of \$.7 million from last year's ending fund balances of \$11.7 million. The decrease of \$.7 million consists of a \$.4 million fund balance decrease in the General Fund, mostly due to a \$908,000 contribution to the California Public Employees' Retirement system (CalPERS). The following assigned fund balances can be used for their specific purposes within the General Fund; however, these funds can be reassigned at the Council's discretion:

- Assigned for unfunded pension reserve \$47,773
- Assigned for equipment replacement 200,000
- Assigned for emergency capital reserve 1,400,000
- Assigned for OPEB 308,280
- Assigned for other purposes 100,000

The remaining \$7.9 million in restricted funds can only be used for projects within the intended purpose of the funds.

Additional detail on specific fund balances can be found in Note 6.

Fund Budgetary Highlights:

The overall General Fund adopted budget, in total, remained the same in fiscal year 2015.

Anticipated revenues for the General Fund for 2015 totaled \$4.8 million while actual revenues equaled \$4.6 million, a difference of \$286,000. Of this amount, \$208,204 represents anticipated licenses and permits not received, due to slower housing requests and a decrease in the Utility User's Tax revenue of \$60,311 reflective of drought and sustainability requirements.

Transfers and expenditures exceeded revenues in the General Fund due to the following:

- An increase of \$327,724 for budgetary expenditures due to staffing fluctuations which required external consulting services to cover job-specific positions; server malfunction and equipment replacement; cloud technology and software updates; and increased landscape maintenance service for parks and recreation.
- Several General Fund transfers resulted in a \$384,976 negative balance. The Open Space Acquisition Fund was reallocated to the restricted Open Space Fund at \$377,499; an amount of \$7,476.84 was transferred as gas tax revenues were less than gas tax-related expenditures.

General Fund expenditures budgeted for 2015 totaled \$6 million while actual expenditures equaled \$5.5 million, a difference of \$459,595. The variance is mainly attributable to salary and fringe savings from staff vacancies and turnover and capital improvement needs. Parks and recreation shows a negative budget variance in 2015 due to changes in staff and increased janitorial and landscape maintenance support.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

As of the end of fiscal year 2015, the Town had invested \$32.6 million in a broad range of capital assets including buildings, land and technology upgrades. The Town increased its gross capital assets by \$1.2 million during 2015. Total depreciation expense for the year was \$.8 million. Depreciation expense is allocated to the fund and category in which the capital asset has been recorded.

Additional information on the Town's capital assets can be found in Note 3.

Condensed Statement of Capital Assets

	Fiscal Year Ended		Change	
	6/30/2015	6/30/2014	Amount	Percent
Land	\$ 6,690,959	\$ 6,690,959	\$ -	0%
Construction in Progress	521,326	514,583	6,743	
Infrastructure	8,451,212	7,285,654	1,165,558	16%
Land Improvements	2,627,145	2,627,145	-	0%
Buildings & Improvements	19,782,399	19,782,399	-	0%
Equipment	359,489	324,082	35,407	11%
Total Capital Assets	38,432,530	37,224,822	1,207,708	3%
Accumulated Depreciation	(5,787,350)	(4,963,487)	(823,863)	17%
Total Net Capital Assets	\$ 32,645,180	\$ 32,261,335	\$ 383,845	1%

Long-Term Debt:

The Town's long term liabilities include \$60,631 of compensated absences and \$1,056,136 Net Pension Liability and Net OPEB obligation, with no new debt incurred during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET:

The factors that most significantly impact the Town and its budget are driven by property values, building activity, and labor costs. The local real estate market and housing demand in the region remained steady. These two factors directly impact property taxes, which are the Town's largest revenue source.

The Town recognizes its contractual obligations to employees for vacation and benefits payable. As of June 30, 2015, the Town had accumulated obligations totaling \$60,631 for unpaid vacation leave. Funding for this liability has not occurred since it is not payable currently. The annual expected payout of vacation leave is reflected in the current operating budget of the General Fund. The Town provides post-employment benefits other than pensions such as health insurance to their retirees. The beginning fiscal year 2015 net OPEB obligation was \$49,648 and the ending obligation was \$98,814, an increase of \$49,166. Although the Town contributed \$5,546 to the OPEB Trust, the combined total was less than the \$54,712 Annual Required Contribution (ARC) resulting in a \$49,166 increase in the ending obligation.

During Fiscal Year 2015, the Town implemented GASB 68, which resulted in a net pension liability of \$957,322, and is reflected in the *Statement of Net Position*. GASB No. 68 is intended to improve accounting and financial reporting by state and local governments that provide defined pension benefits. Both Pension and OPEB funding are the impending tidal wave facing governmental employers as they manage their financial portfolio.

Labor and contract services costs are an area of continued diligence for the Town. The continued implementation of reductions to the Town's cafeteria plan allowances for employees with dependents will continue to reduce benefits costs in 2015-16.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or would like additional financial information, please contact the Town of Portola Valley, 765 Portola Road, Portola Valley, California 94028.

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TOWN OF PORTOLA VALLEY

**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the Town's entire financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Town's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Town's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Town funds have been eliminated.

The Statement of Net Position reports the difference between the Town's total assets and deferred outflows of resources, if any; and the Town's total liabilities and deferred inflows of resources, if any, including all the Town's capital assets and all its long-term debt.

The Statement of Net Position summarizes the financial position of all of the Town's Governmental Activities in a single column.

The Town's Governmental Activities include the activities of its General Fund along with all its Special Revenue Funds.

The Statement of Activities reports increases and decreases in the Town's net position. It is also prepared on the full accrual basis, which means it includes all the Town's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Town's expenses first, listed by program. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental program. The Town's general revenues are then listed in the Governmental Activities column and the Change in Net Position is computed and reconciled with the Statement of Net Position.

TOWN OF PORTOLA VALLEY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$11,690,119
Restricted cash - customer deposits (Note 2)	822,928
Accounts and interest receivable	252,781
Loans receivable (Note 5)	87,363
Capital assets, net (Note 3)	
Nondepreciable	7,212,285
Depreciable, net of accumulated depreciation	25,432,895
Total Assets	45,498,371
DEFERRED OUTFLOWS OF RESOURCES	
Related to Pension (Note 7)	1,042,335
LIABILITIES	
Current liabilities:	
Accounts payable	887,898
Refundable customer deposits	836,530
Accrued compensated absences due within one year (Note 1G)	60,631
Unearned revenue	57,897
Non-current liabilities:	
Net Pension Liability (Note 7)	957,322
Net OPEB obligation (Note 8)	98,814
Total Liabilities	2,899,092
DEFERRED INFLOWS OF RESOURCES	
Related to Pension (Note 7)	322,771
NET POSITION (Note 6)	
Net Investment in capital assets	32,645,180
Restricted for:	
Special Revenue Projects	4,992,860
Capital Projects	2,895,076
Unrestricted	2,785,727
Total Net Position	\$43,318,843

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Operating Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$3,109,570	\$714,699	\$22,222	\$53,456	(\$2,319,193)
Parks and recreation	258,569	76,153			(182,416)
Town center facilities	636,219	228,032			(408,187)
Public safety	943,456		109,214		(834,242)
Public works	573,717		360,583	297,549	84,415
Total governmental activities	\$5,521,531	\$1,018,884	\$492,019	\$351,005	(3,659,623)
General Revenues:					
Property Tax Revenues.....					2,434,575
Other Governmental Agencies Revenues.....					373,206
Franchise Fees.....					266,115
Utility User Tax.....					744,149
Investment Earnings.....					32,847
Miscellaneous Revenue.....					13,915
Total general revenues					3,864,807
Change in net position					205,184
Net Position, beginning of year as adjusted, (Note 1L)					43,113,659
Net Position, end of year					\$43,318,843

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

The Fund Financial Statements present only individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the Town in fiscal year 2015. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

Accounts for all financial resources except those required to be accounted for in another fund.

OPEN SPACE RESTRICTED

Accounts for monies accrued from a special 2% utility tax approved by the voters in 1997, 2001, 2005, 2009 and from private donations. It can be used for the acquisition and support of open space within the Town. Private donations are generally in the form of tax-deductible checks or appreciated securities.

INCLUSIONARY-IN-LIEU

Accounts for the subdivision developer's fee, payable by fee or land that can only be used for affordable housing.

MEASURE A

Accounts for the half-cent County sales tax revenue restricted for the improvement of local transportation, including streets and roads for the recovery of road repair costs from building permit applicants due to road wear and tear from construction vehicles.

TOWN OF PORTOLA VALLEY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	General	Open Space Restricted	Inclusionary In-Lieu
ASSETS			
Cash and investments (Note 2)	\$3,494,537	\$4,568,400	\$2,886,725
Restricted cash - customer deposits (Note 2)	822,928		
Accounts and interest receivable	189,649	21,253	2,074
Due from other funds (Note 4)	200,645		
Loans receivable (Note 5)	87,363		
Total Assets	\$4,795,122	\$4,589,653	\$2,888,799
LIABILITIES			
Accounts payable	\$420,064	\$2,620	
Refundable deposits	836,530		
Due to other funds (Note 4)			
Unearned revenue	57,897		
Total Liabilities	1,314,491	2,620	
FUND BALANCES (Note 6)			
Nonspendable	87,363		
Restricted		4,587,033	\$2,888,799
Assigned	2,056,053		
Unassigned	1,337,215		
Total Fund Balances	3,480,631	4,587,033	2,888,799
Total Liabilities and Fund Balances	\$4,795,122	\$4,589,653	\$2,888,799

See accompanying notes to financial statements

Measure A	Other Governmental Funds	Total Governmental Funds
\$235,752	\$504,705	\$11,690,119
		822,928
25,248	14,557	252,781
		200,645
		87,363
<u>\$261,000</u>	<u>\$519,262</u>	<u>\$13,053,836</u>
\$261,000	\$204,214	\$887,898
		836,530
	200,645	200,645
		57,897
<u>261,000</u>	<u>404,859</u>	<u>1,982,970</u>
		87,363
	412,104	7,887,936
		2,056,053
	(297,701)	1,039,514
	<u>114,403</u>	<u>11,070,866</u>
<u>\$261,000</u>	<u>\$519,262</u>	<u>\$13,053,836</u>

TOWN OF PORTOLA VALLEY
RECONCILIATION OF THE
GOVERNMENTAL FUNDS BALANCE SHEET
TO THE
STATEMENT OF NET POSITION
JUNE 30, 2015

Fund Balances - Total Governmental Funds **\$11,070,866**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Governmental capital assets	\$38,432,530	
Less: accumulated depreciation	<u>(5,787,350)</u>	32,645,180

Revenue which are deferred on the Fund Balance Sheets, because they are not available currently, are taken into revenue in the Statement of Activities

Retirement contributions and changes in net pension liability subsequent to the measurement date are not recognized on the Fund Balance Sheets and taken into the Statement of Net Position:

Deferred outflows of resources		1,042,335
Deferred inflows of resources		<u>(322,771)</u>

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds

Collective net pension liability		(957,322)
Net OPEB obligations		(98,814)
Compensated absences		<u>(60,631)</u>

Net Position of Governmental Activities **\$43,318,843**

See accompanying notes to financial statements

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TOWN OF PORTOLA VALLEY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Open Space Restricted	Inclusionary In-Lieu
REVENUES			
Taxes			
Property taxes	\$2,434,575		
Sales tax	181,914		
Utility users tax	515,177	\$228,972	
Gas tax			
Business license tax and other taxes	129,931		
Total taxes	3,261,597	228,972	
Agency revenues	29,501		
Grants			
Contributions		53,456	
Franchise fees	266,115		
Licenses and permits	591,096		
Service charges and fees	123,563		
Parks and recreation	280,400		
Investment and other revenues	49,901	11,404	\$7,683
Total Revenues	4,602,173	293,832	7,683
EXPENDITURES			
General government	3,985,872		
Parks and recreation	225,232		
Town center facilities	164,318		
Public safety	828,217		
Public works	15,079		
Capital improvement program	368,169	2,620	
Total Expenditures	5,586,887	2,620	
OTHER FINANCING SOURCES (USES)			
Transfers in (Note 4)		377,499	
Transfers (out) (Note 4)	(384,976)		
Total other financing sources (uses)	(384,976)	377,499	
NET CHANGE IN FUND BALANCES	(1,369,690)	668,711	7,683
FUND BALANCES, BEGINNING OF YEAR	4,850,321	3,918,322	2,881,116
FUND BALANCES, END OF YEAR	\$3,480,631	\$4,587,033	\$2,888,799

See accompanying notes to financial statements

Measure A	Other Governmental Funds	Total Governmental Funds
		\$2,434,575
\$269,709	\$13,418	465,041
		744,149
	140,870	140,870
		129,931
<u>269,709</u>	<u>154,288</u>	<u>3,914,566</u>
	224,000	253,501
	237,427	237,427
		53,456
		266,115
		591,096
		123,563
		280,400
434	1,231	70,653
<u>270,143</u>	<u>616,946</u>	<u>5,790,777</u>
		3,985,872
		225,232
	23,260	187,578
	113,000	941,217
	224,342	239,421
261,000	605,591	1,237,380
<u>261,000</u>	<u>966,193</u>	<u>6,816,700</u>
	49,706	427,205
(42,229)		(427,205)
<u>(42,229)</u>	<u>49,706</u>	
(33,086)	(299,541)	(1,025,923)
33,086	413,944	12,096,789
<u>33,086</u>	<u>413,944</u>	<u>12,096,789</u>
	<u>\$114,403</u>	<u>\$11,070,866</u>

TOWN OF PORTOLA VALLEY
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN THE FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances - Total Governmental Funds (\$1,025,923)

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

Capital contributions

Capital outlay is an expenditure in the government funds financial statement, but the cost of those assets is allocated over their estimated useful lives as depreciation expense in the statement of activities.

Capital outlay and other capitalized expenditures	\$1,207,708	
Depreciation expense	<u>(823,863)</u>	383,845

The amount below included in the Statement of Activities does not provide or (require) the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):

Unavailable revenues	(64,062)	
Pension expense	959,702	
OPEB expense	(49,166)	
Net change in compensated absences	<u>788</u>	

Change in Net Position of Governmental Activities \$205,184

See accompanying notes to financial statements

AGENCY FUNDS

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity – wide financial statements, but are presented in separate Agency Fund financial statements.

TOWN OF PORTOLA VALLEY
AGENCY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 2)	\$352,970
Accounts and interest receivable	<u>2,922</u>
Total Assets	<u><u>\$355,892</u></u>
 LIABILITIES	
Deposits and accrued liabilities	<u>\$355,892</u>
Total Liabilities	<u><u>\$355,892</u></u>

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of accounting policies of the Town:

A. Reporting Entity

The Town of Portola Valley (the Town) was incorporated on July 14, 1964 under the laws of the State of California. Portola Valley operates under a Council-Manager form of government. The Town provides a full range of municipal services to its citizens including public safety, culture, recreation, public improvements, planning and zoning, and general administrative support. These financial statements present the financial status of the Town.

B. Basis of Presentation

The Town's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

C. Major Funds

The Town's major governmental funds are presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Open Space Restricted Fund is a major fund of the Town. Through the years, residents and others have raised funds to preserve some 100 acres of open space within the Town's boundaries. Several fund-raising committees have worked at various times to achieve this goal, culminating in today's Open Space Acquisition Fund (PVOSAF). This fund, overseen by the Town Council, is composed of monies accrued from a special 2% utility tax approved by the voters in 1997 and from private donations. Subsequent elections were re-authorizing the increase of the appropriations limits for 4 additional years. It can be used for the acquisition and support of open space within the Town. Private donations are generally in the form of tax-deductible checks or appreciated securities.

Inclusionary-In-Lieu is used to account for the subdivision developer's fee, payable by fee or land that can only be used for affordable housing.

Measure A accounts for the half-cent County sales tax revenue restricted for the improvement of local transportation, including streets and roads for the recovery of road repair costs from building permit applicants due to road wear and tear from construction vehicles.

The Town also reports the following fund types:

Fiduciary Funds - Agency Funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 45 to 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Those revenues susceptible to accrual are property tax, sales tax, utility user tax, interest revenue and franchise fees. Fines, licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. *Implementation of Governmental Accounting Standards Board Statements*

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The intention of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The intention of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

F. *Property Taxes*

County tax assessments include secured and unsecured property taxes. Unsecured taxes are taxes on personal property. Tax assessments are secured by liens on the property being taxed. The County makes annual adjustments as needed to current year revenues based on true-ups and prior year tax roll corrections to special districts related to Tax Equity Allocations.

Revenue is recognized in the period for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes for the Town. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

Secured and unsecured property taxes are levied on January 1. Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Compensated Absences*

Compensated absences represent the vested portion of accumulated vacation, compensation time and overtime. Upon termination, 100% of vacation leave will be paid. The Town records a liability for unpaid compensated absences.

The changes of the compensated absences are as follows:

Beginning balance	\$61,419
Additions	93,200
Payments	<u>(93,988)</u>
Ending balance	<u><u>\$60,631</u></u>

Accumulated sick leave benefits are not recognized as liabilities of the Town. The Town's policy is to record sick leave as an operation expense in the period taken since such benefits do not vest nor is payment probable.

For all governmental funds, amounts that have matured are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Position.

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

H. *Deferred Compensation Plan*

Town employees may defer a portion of their compensation under Town sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plans.

The laws governing deferred compensation plan assets required them to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the Town's property and are not subject to the Town control, they have been excluded from these financial statements.

I. *Expenditures in Excess of Budget*

The funds below incurred expenditures in excess of their budgets in the amounts below for the year ended June 30, 2015:

Road Impact Fees Special Revenue Fund	\$169
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TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet 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 or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet 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 or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

L. Restatement of Beginning Net Position

As a result of the implementation of GASB Statements 68 and 71, the Town made adjustments to the Entity-Wide beginning net positions for \$1,197,460. See Note 7 for additional information.

NOTE 2 - CASH AND INVESTMENTS

The Town pools cash from all sources and all funds so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town's cash on deposit or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Town's name and places the Town ahead of general creditors of the institution.

The Town's investments are carried at fair value, as required by the generally accepted accounting principles. The Town adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (Continued)

B. Classification

Cash and investments are classified in the financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$11,690,119
Restricted cash and investments	822,928
Cash and investments of the Town	<u>12,513,047</u>
Cash and investments in Fiduciary Funds (separate statement)	<u>352,970</u>
Total cash and investments	<u><u>\$12,866,017</u></u>

C. Investments Authorized by the California Government Code and the Town's Investment Policy

The Town's Investment Policy and the California Government Code allow the Town to invest in the following, provided the credit ratings of the issuers are acceptable to the Town; and approved percentages and maturities are not exceeded.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
Negotiable Certificates of Deposits	5 years	30%	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
California Local Agency Investment Fund	N/A	None	\$40 million

The Town does not enter into repurchase or reverse repurchase agreements.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates will be.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (Continued)

Information on the fair values of the Town's cash and investments at June 30, 2015, is provided by the following table:

	Cash and Investments	Restricted Cash and Investments	Total
California Local Agency Investment Fund	\$11,904,855	\$822,928	\$12,727,783
Cash in Bank			
Checking Account	136,734		136,734
Cash on Hand	1,500		1,500
Total cash and investments	\$12,043,089	\$822,928	\$12,866,017

The Town is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Town reports its investment in LAIF at the fair value amount provided by LAIF. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2015, these investments matured in an average of 239 days.

E. Credit Risk

Credit Risk is the risk that an issuer will not fulfill its obligation to the holder of the investment. The Town invests in the California Local Agency Investment Fund, which is not rated.

NOTE 3 - CAPITAL ASSETS

The Town defines capital assets as assets with an initial cost generally of \$5,000 or more and an estimated useful life in excess of two years except for land which is always capitalized and buildings, land improvements and infrastructure which have a \$25,000 capitalization threshold.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

The Town is required to record all its public domain (infrastructure) capital assets. The Town has elected to prospectively record its infrastructure placed into service beginning in fiscal year 2004, including roads, curbs and gutters, streets, trails, paths and drainage systems.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 3 - CAPITAL ASSETS (Continued)

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets:

Asset Class	Useful Lives
Infrastructure	20 - 50 years
Improvements other than Buildings	35 years
Buildings and Improvements	20 - 50 years
Equipment	5 - 20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

A. Capital Asset Additions and Retirements

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

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Governmental Activities				
Capital assets not being depreciated:				
Land	\$6,690,959			\$6,690,959
Construction in Progress	514,583	\$47,235	(\$40,492)	521,326
Total capital assets not being depreciated	7,205,542	47,235	(40,492)	7,212,285
Capital assets being depreciated:				
Infrastructure	7,285,654	1,165,558		8,451,212
Land improvements	2,627,145			2,627,145
Buildings and improvements	19,782,399			19,782,399
Equipment	324,082	35,407		359,489
Total capital assets being depreciated	30,019,280	1,200,965		31,220,245
Less accumulated depreciation for:				
Infrastructure	(1,847,452)	(334,296)		(2,181,748)
Land improvements	(748,567)	(73,565)		(822,132)
Buildings and improvements	(2,168,798)	(395,648)		(2,564,446)
Equipment	(198,670)	(20,354)		(219,024)
Total accumulated depreciation	(4,963,487)	(823,863)		(5,787,350)
Total depreciable assets, net	25,055,793	\$377,102		25,432,895
Capital assets, net	\$32,261,335			\$32,645,180

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 3 - CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program is as follows:

Governmental Activities	
General Government	\$5,350
Parks and Recreation	33,337
Town Center Facilities	448,641
Public Safety	2,239
Public Works	<u>334,296</u>
Total Governmental Activities	<u><u>\$823,863</u></u>

NOTE 4 - INTERFUND TRANSACTIONS

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. As of June 30, 2015, the Public Safety COPS Special Revenue Fund, the Measure M Special Revenue Fund, and the Storm Damage Capital Projects Fund owe the General Fund \$6,855; \$8,701; and \$185,089 correspondingly.

B. Interfund Transfers

With Council approval, resources may be transferred from one Town fund to another, Interfund transfers for the year ended June 30, 2015, were as follows:

Transfers In:	Transfers Out:		Total
	General Fund	Non-major	
Open Space Fund	\$377,499		\$377,499
Non-major	<u>7,477</u>	<u>\$42,229</u>	<u>49,706</u>
Total	<u><u>\$384,976</u></u>	<u><u>\$42,229</u></u>	<u><u>\$427,205</u></u>

NOTE 5 - LOANS RECEIVABLE

The Town issued loans to Wayside II Road Maintenance District to maintain the private roads within the Wayside Road area of the Town. The District repays the Town on annual basis and the interest rate varies in each fiscal year based on quarterly LAIF statements. As of June 30, 2015, the remaining balance of the loans is \$87,363.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 6 – NET POSITION AND FUND BALANCES

A. *Net Position*

Net Position is measured on the full accrual basis and are the excesses of all the Town's assets and deferred outflows of resources over all its liabilities, and deferred inflows of resources. Net Position is divided into three captions which are determined only at the Government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the Town's capital assets, less the outstanding balance of any retention payables.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Town cannot unilaterally alter.

Unrestricted describes the portion of Net Position which is not restricted to use.

B. *Fund Balances*

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The Town's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Town to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Town prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned.

Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids and notes receivable are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the Town Council which may be altered only by formal action of the Town Council. Nonspendable amounts subject to council commitments are included along with spendable resources.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 6 – NET POSITION AND FUND BALANCES (Continued)

Assigned fund balances are amounts constrained by the Town's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Town Council and may be changed at the discretion of the Town Council. This category includes *nonspendables*, when it is the Town's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Detailed classifications of the Town's fund balances, as of June 30, 2015, are below:

	General Fund	Open Space Restricted Special Revenue Fund	Inclusionary In-lieu Capital Project Fund	Other Governmental Funds	Total
Fund balances:					
Nonspendables:					
Loans receivable	\$87,363				\$87,363
Restricted for:					
Open space acquisition		\$4,587,033			4,587,033
Road impact fees					
Public safety				\$4,232	4,232
Gas Tax					
Public safety COPS				2,307	2,307
Library fund				399,288	399,288
Park in-lieu				6,277	6,277
Inclusionary in-lieu Measure A			\$2,888,799		2,888,799
Grants					
Assigned to:					
Unfunded pension reserve	47,773				47,773
Equipment replacement	200,000				200,000
Capital replacement/repair	1,400,000				1,400,000
OPEB	308,280				308,280
Legal contingency	100,000				100,000
Unassigned	1,337,215			(297,701)	1,039,514
Total fund balances	<u>\$3,480,631</u>	<u>\$4,587,033</u>	<u>\$2,888,799</u>	<u>\$114,403</u>	<u>\$11,070,866</u>

C. General Fund Minimum Fund Balance Policy

Town is required to maintain a minimum of 60% of its annual budgeted operating expenditures (excluding capital improvement expenditures) within the General Fund's unrestricted fund balance. This amount is to be calculated annually via the adopted budget for the next fiscal year. The General Fund unrestricted fund at June 30, 2015 is as follows:

Fiscal 2015-16 Adopted Budget General Fund Operating Expenditures	<u>\$4,499,337</u>
Multiplied by 60%:	
Required minimum unrestricted General Fund fund balance	<u>\$2,699,602</u>
General Fund unrestricted fund balance as of June 30, 2015	<u>\$3,393,268</u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 - PENSION PLAN

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 Town'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 the 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.

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Town's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

	Miscellaneous	
	Classic Prior to January 1, 2014	PEPRA On or after January 1, 2014
Hire date		
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	52-67
Monthly benefits, as a % of eligible compensation	2.0% - 2.5%	1.0% - 2.5%
Required employer contribution rates	11.03%	6.25%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that 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 Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLAN (Continued)

For the year ended June 30, 2015, the contributions recognized as part of pension expense was \$133,167.

	<u>Miscellaneous</u>	<u>Miscellaneous PEPRA</u>
Contributions - employer	\$129,280	\$3,887
Contributions - employee (paid by employer)	82,105	3,887

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Town reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$957,304
Miscellaneous PEPRA	18
Total Net Pension Liability	<u><u>\$957,322</u></u>

The Town's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>Miscellaneous PEPRA</u>
Proportion - June 30, 2013	0.04%	0.00%
Proportion - June 30, 2014	0.04%	0.00%
Change - Increase (Decrease)	0.00%	0.00%

For the year ended June 30, 2015, the Town recognized pension expense of \$1,040,866. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$1,040,866	
Differences between actual and expected experience		
Changes in assumptions		
Net differences between projected and actual earnings on plan investments		321,704
Adjustments due to differences in proportion	1,469	1,067
Total	<u><u>\$1,042,335</u></u>	<u><u>\$322,771</u></u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLAN (Continued)

The \$1,040,866 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2015	(\$80,283)
2016	(80,283)
2017	(80,313)
2018	(80,423)

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

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS' Membership Data for all funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75 % thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLAN (Continued)

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

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

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their 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 plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 7 – PENSION PLAN (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Town’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Miscellaneous PEPRA
1% Decrease	6.50%	6.50%
Net Pension Liability	\$1,705,620	\$33
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$957,304	\$18
1% Increase	8.50%	8.50%
Net Pension Liability	\$336,273	\$6

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS

A. Plan Description

Permanent employees who retire under the Town’s CalPERS retirement plan are, pursuant to their respective collective bargaining agreements, eligible to have certain portion of their medical insurance premiums paid by the Town.

The Town contracts with CalPERS for this insured-benefit plan established under the state Public Employees’ Medical and Hospital Care Act (PEMHCA). The plan offers employees and retirees three CalPERS’ self-funded options, setup as insurance risk pools, or offers various third-party insured health plans. The plan’s medical benefits and premium rates are established by CalPERS and the insurance providers. The Town contribution is established by Town resolution. Retirees and active employees pay the difference between the premium rate and the Town’s contribution. Premiums and Town contributions are based on the plan and coverage selected by actives and retirees. A comprehensive annual financial report of CalPERS, inclusive of their benefit plans, is available at www.calpers.ca.gov. Eligibility and the Town contributions toward month premiums are as follows:

Eligibility:	
Minimum age before retirement	50
Minimum required years of service:	5
Health Benefit - Employer Contribution	
Monthly Premiums	
BlueShield HMO medical, pharmacy	\$119
Kaiser medical, pharmacy coverage	\$119
PERSChoice medical, pharmacy coverage	\$119

B. Funding Policy

The Town contributes to the plan on a pay-as-you go basis.

C. Annual OPEB Cost and Net OPEB Obligation

The end of the year net OPEB obligation is determined as follows:

Annual required contribution (ARC) and	
Annual OPEB cost	\$54,712
Interest on net OPEB obligation	2,731
Adjustment to annual required contribution	(2,349)
Contributions:	
Town's contribution made	<u>5,546</u>
(Decrease) increase in net OPEB obligations	49,166
Net OPEB obligation June 30, 2014	<u>49,648</u>
Net OPEB obligation (asset) June 30, 2015	<u><u>\$98,814</u></u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS (Continued)

The government's annual OPEB cost, percentage of OPEB cost contributed, and net postemployment benefit obligation for the plan for the fiscal year ended June 30, 2015 is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2014	\$54,712	\$5,546	10%	\$98,814

D. Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the funded status of the plan was as follows:

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
6/30/2013	\$0	\$308,280	(\$308,280)	0.00%	\$1,258,842	(24.49%)

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations, after this initial year, will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The ARC for the plan was determined as part of the actuarial valuation using the following methods and assumptions:

Key Assumptions

UAL and ARC	Alternative measurement method
Actuarial cost method	Entry age
Amortization cost	Level percentage of payroll
Plan asset return	5.50%
Employer asset return	1.00%
Discount rate	5.50%
Projected salary increase	3.00%
Amortization period	30 years

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 9 - RISK MANAGEMENT

The Town participates in the following public entity risk pools; other risks are covered by commercial insurance.

A. *Liability Coverage*

ABAG Plan Corporation (ABAG Plan) provides the first \$5 million of general liability coverage. If a general liability claim exceeds \$5 million, the excess liability would kick in. As a member of ABAG Plan, the Town has \$20 million in excess liability limits, for total liability limits of \$30 million. The Town has a deductible or uninsured liability of up to \$25,000 per claim. During the fiscal year ended June 30, 2015, the Town contributed \$39,195 for current year coverage.

ABAG Plan pool is governed by a board consisting of representatives from member municipalities. The board controls the operations, including approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board.

Financial statements for ABAG Plan may be obtained from ABAG Plan, P.O. Box 2050, Oakland, California, 94604-2050.

B. *Workers Compensation Coverage*

The State Compensation Insurance Fund covers workers compensation claims up to \$200,000 for each claim and has coverage above that limit to a maximum of \$1,000,000. The Town has no deductible for these claims. During the fiscal year ended June 30, 2015, the Town contributed \$14,397 for current year coverage.

C. *Liability for Uninsured Claims*

The Town has retained the risk for the deductible or uninsured portion of general liability claims. The Town's liability for uninsured claims at June 30, 2015 is believed by management to be nil based on the absence of any asserted claims.

NOTE 10 - JOINT POWERS AGREEMENT

A. *C/CAG*

The Town participates in the City/County Association of Governments of San Mateo County (C/CAG), which is governed by a board consisting of a representative from each member. The board controls the operations of C/CAG, including selection of management and approval of operating budgets, independent of any influence by each member beyond member representation on the Board.

C/CAG was established under a 1990 Joint Exercise of Powers Agreement between the Town, San Mateo County and a majority of cities within San Mateo County for the purpose of developing State mandated plans such as an integrated waste management plan. The Town makes annual nonrefundable contributions to C/CAG which are used along with other member contributions to finance C/CAG operations. Audited financial statements may be obtained from the Town of San Carlos, 666 Elm Street, San Carlos, CA, 94070. The Town's payments to C/CAG during the year totaled \$11,676. The Town's share of year-end assets, liabilities, or fund equity has not been calculated by C/CAG.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 10 - JOINT POWERS AGREEMENT (Continued)

B. *San Mateo County Free Library Systems*

The Town is a participant with the County of San Mateo in the San Mateo County Free Library System (the Library System), a joint powers agency created to provide extended library services to the residents of the Town and the County. The Agency is governed by a 12-member board made up of a representative from each participating City or Town. The Agency shall continue, uninterrupted, until two thirds of the members vote to terminate the Agency. However, an individual member can terminate its membership with a six-month notice. Upon individual member termination, the member would not be entitled to the return of any funds contributed to the Joint Powers Agency nor to the return in cash or in kind of any materials or supplies contributed. Upon full termination of the Joint Powers Agency the member would receive any surplus money on hand proportionate to its contribution to the Joint Powers Agency. However, all property acquired by the Joint Powers Agency during the term of the agreement shall become the property of the County Free Library System. The Library System's financial statements can be obtained by contacting the San Mateo Library System, 25 Tower Road, San Mateo, California 94402.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

The Town is subject to litigation arising in the normal course of business. In the opinion of the Town Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town. Litigation outstanding in prior years has been settled without material cost to the Town.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PORTOLA VALLEY

**Schedule of the Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years***

	<u>Miscellaneous 2015</u>	<u>Miscellaneous PEPRA 2015</u>
Plan's proportion of the Net Pension Liability (Asset)	0.01538%	0.00000%
Plan's proportion share of the Net Pension Liability (Asset)	\$957,304	\$18
Plan's Covered Employee Payroll	\$993,466	\$44,388
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	96.36%	0.04%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	83.49%
Plan's Proportionate Share of Aggregate Employer Contributions	\$126,648	\$2

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

TOWN OF PORTOLA VALLEY PENSION PLAN
SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years*

	<u>Miscellaneous 2015</u>	<u>Miscellaneous PEPRA 2015</u>
Actuarially determined contribution	\$103,451	\$7,862
Contributions in relation to the actuarially determined contributions	(103,451)	(7,862)
Additional Contributions	<u>907,699</u>	
Contribution deficiency (excess)	<u>\$907,699</u>	<u>\$0</u>
Covered-employee payroll	\$993,466	\$44,388
Contributions as a percentage of covered- employee payroll	10.41%	17.71%

Notes to Schedule

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Retirement age	50 years Misc., 67 years Misc. PEPRA
Mortality	RP-2000 Healthy Annuitant Mortality Table

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**OTHER POSTEMPLOYMENTS BENEFITS (OPEB) PLAN
SCHEDULE OF FUNDING PROGRESS**

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A - B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A - B)/C]
6/30/2013	\$0	\$308,280	(\$308,280)	0.00%	\$1,258,842	(24.49%)

TOWN OF PORTOLA VALLEY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES				
Taxes:				
Property taxes	\$2,467,893	\$2,467,893	\$2,434,575	(\$33,318)
Sales tax	203,000	203,000	181,914	(21,086)
Business license tax and other taxes	107,000	107,000	129,931	22,931
	<u>2,777,893</u>	<u>2,777,893</u>	<u>2,746,420</u>	<u>(31,473)</u>
Total Taxes				
Franchise fees	268,114	268,114	266,115	(1,999)
Utility users tax	575,488	575,488	515,177	(60,311)
Agency revenues	5,400	5,400	29,501	24,101
Contributions	1,000	1,000		(1,000)
Licenses and permits	799,300	799,300	591,096	(208,204)
Service charges and fees	137,500	137,500	123,563	(13,937)
Parks and recreation	252,978	252,978	280,400	27,422
Investment and other revenues	70,500	70,500	49,901	(20,599)
	<u>4,888,173</u>	<u>4,888,173</u>	<u>4,602,173</u>	<u>(286,000)</u>
Total Revenues				
EXPENDITURES				
General government	3,310,166	4,217,865	3,985,872	231,993
Parks and recreation	208,000	208,000	225,232	(17,232)
Town center facilities	171,000	171,000	164,318	6,682
Public safety	828,217	828,217	828,217	
Public works	23,000	23,000	15,079	7,921
Capital improvement program	448,400	598,400	368,169	230,231
	<u>4,988,783</u>	<u>6,046,482</u>	<u>5,586,887</u>	<u>459,595</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over Expenses	<u>(100,610)</u>	<u>(1,158,309)</u>	<u>(984,714)</u>	<u>173,595</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)			(384,976)	(384,976)
			<u>(384,976)</u>	<u>(384,976)</u>
Total Other Financing Sources (Uses)				
NET CHANGE IN FUND BALANCE	<u>(\$100,610)</u>	<u>(\$1,158,309)</u>	(1,369,690)	<u>(\$211,381)</u>
Fund balance at beginning of year			<u>4,850,321</u>	
Fund balance at end of year			<u>\$3,480,631</u>	

TOWN OF PORTOLA VALLEY
 OPEN SPACE RESTRICTED SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Utility users tax	\$254,976	\$228,972	(\$26,004)
Contribution	5,000	53,456	48,456
Investment and other revenues		11,404	11,404
	<u>259,976</u>	<u>293,832</u>	<u>33,856</u>
EXPENDITURES			
Capital improvement program	<u>20,000</u>	<u>2,620</u>	<u>17,380</u>
Total Expenditures	<u>20,000</u>	<u>2,620</u>	<u>17,380</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		<u>377,499</u>	<u>377,499</u>
Total other financing sources (uses)		<u>377,499</u>	<u>377,499</u>
Net change in fund balance	<u>\$259,976</u>	668,711	<u>\$408,735</u>
Fund balance at beginning of year		<u>3,918,322</u>	
Fund balance at end of year		<u>\$4,587,033</u>	

TOWN OF PORTOLA VALLEY
 MEASURE A SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Sales tax	\$262,514	\$269,709	\$7,195
Investment and other revenues		434	434
Total Revenues	<u>262,514</u>	<u>270,143</u>	<u>7,629</u>
EXPENDITURES			
Capital improvement program	<u>261,000</u>	<u>261,000</u>	
Total Expenditures	<u>261,000</u>	<u>261,000</u>	
OTHER FINANCING SOURCES (USES)			
Transfers (out)		<u>(42,229)</u>	<u>(42,229)</u>
Net change in fund balance	<u>\$262,514</u>	<u>(33,086)</u>	<u>(\$295,600)</u>
Fund balance at beginning of year		<u>33,086</u>	
Fund balance at end of year		<u><u> </u></u>	

Note to Budgetary Schedules

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

1. The Town Manager submits a proposed budget to the Finance Committee for review and approval.
2. The Town Manager then submits to the Town Council a recommended draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
3. The Town Council reviews the proposed budget at one of its regularly scheduled meetings which is open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
4. Prior to July 1, the budget is adopted through the passage of a resolution. All appropriations lapse at year end.
5. From the effective date of the budget, which is adopted and controlled by the Town Manager at the fund level, the amounts stated therein as proposed expenditures become appropriations to the various Town activities. The Town Council may amend the budget by resolution during the fiscal year.
6. Capital Projects Funds are budgeted on an annual basis. If a capital project is not completed in a budget year, it is included in the subsequent budget year, if necessary. Inclusionary In-lieu Capital Project Fund was not budgeted.

OTHER SUPPLEMENTAL INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

PUBLIC SAFETY

Accounts for half-cent State sales tax revenue designated exclusively for local agency public safety services, (Sec. 35 of Art. XIII of California Constitution).

GAS TAX

Accounts for maintenance and repair for streets.

PUBLIC SAFETY COPS (Citizens' Options for Public Safety)

Accounts for the supplemental State law enforcement fund for special law and traffic enforcement.

LIBRARY FUND

Accounts for library service revenue from San Mateo County Library JPA that can only be used for library related activities.

MEASURE M

Accounts for County-generated vehicle registration revenue to be used for local streets and roads for congestion mitigation and water pollution prevention programs.

ROAD IMPACT FEES

Accounts for the recovery of road repair costs from building permit applicants due to road wear and tear from construction vehicles. Collection of fees was suspended by the Council in 2010 and fund balance was depleted as of this reporting period.

CAPITAL PROJECTS FUNDS:

PARK-IN-LIEU

Accounts for the subdivision developer's fee that can only be used for parks or recreational purposes.

GRANTS

Accounts for grant activities.

STORM DAMAGE

This fund is used as necessary to track federal or state-reimbursed storm-related road repairs.

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2015

	Special Revenue Funds			
	Public Safety	Gas Tax	Public Safety COPS	Library Fund
ASSETS				
Cash and investments	\$3,217	\$49,523		\$399,777
Accounts and interest receivable	1,015		\$9,162	289
Total Assets	<u>\$4,232</u>	<u>\$49,523</u>	<u>\$9,162</u>	<u>\$400,066</u>
LIABILITIES				
Accounts payable		\$49,523		\$778
Due to other funds			\$6,855	
Total Liabilities		<u>49,523</u>	<u>6,855</u>	<u>778</u>
FUND BALANCES (DEFICIT)				
Restricted	\$4,232		2,307	399,288
Unassigned				
Total Fund Balance	<u>4,232</u>		<u>2,307</u>	<u>399,288</u>
Total Liabilities and Fund Balances	<u>\$4,232</u>	<u>\$49,523</u>	<u>\$9,162</u>	<u>\$400,066</u>

Special Revenue Funds		Capital Projects Funds			Totals
Measure M	Road Impact Fees	Park In-Lieu	Grants	Storm Damage	
	\$41,169	\$6,272	\$4,747		\$504,705
		5	4,086		14,557
	\$41,169	\$6,277	\$8,833		\$519,262
\$99,740	\$41,169		\$13,004		\$204,214
8,701				\$185,089	200,645
108,441	41,169		13,004	185,089	404,859
(108,441)		\$6,277	(4,171)	(185,089)	412,104
(108,441)		6,277	(4,171)	(185,089)	(297,701)
	\$41,169	\$6,277	\$8,833		114,403
	\$41,169	\$6,277	\$8,833		\$519,262

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue Funds			
	Public Safety	Gas Tax	Public Safety COPS	Library Fund
REVENUES				
Taxes				
Sales tax	\$13,418			
Gas tax		\$140,870		
Total taxes	13,418	140,870		
Agency revenues				
Grants			\$95,797	
Investment and other revenues	3	37		\$1,094
Total Revenues	13,421	140,907	95,797	1,094
EXPENDITURES				
Town center facilities				23,260
Public safety	13,000		100,000	
Public works		208,665		
Capital improvement program				
Total Expenditures	13,000	208,665	100,000	23,260
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4)		49,706		
Transfers (out) (Note 4)				
Total other financing sources (uses)		49,706		
Net change in fund balances	421	(18,052)	(4,203)	(22,166)
Fund balances at beginning of year	3,811	18,052	6,510	421,454
Fund balances (deficit) at end of year	\$4,232	\$18,052	\$2,307	\$399,288

Special Revenue Funds		Capital Projects Funds			Totals
Measure M	Road Impact Fees	Park In-Lieu	Grants	Storm Damage	
					\$13,418
					140,870
					154,288
			\$224,000		224,000
			68,148	\$73,482	237,427
	\$80	\$17			1,231
	80	17	292,148	73,482	616,946
					23,260
					113,000
\$11,591			4,086		224,342
98,000	41,169		248,344	218,078	605,591
109,591	41,169		252,430	218,078	966,193
					49,706
					49,706
(109,591)	(41,089)	17	39,718	(144,596)	(299,541)
1,150	41,089	6,260	(43,889)	(40,493)	413,944
(\$108,441)		\$6,277	(\$4,171)	(\$185,089)	\$114,403

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	PUBLIC SAFETY			GAS TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes						
Sales tax	\$13,305	\$13,418	\$113			
Gas tax				\$123,450	\$140,870	\$17,420
Total taxes	<u>13,305</u>	<u>13,418</u>	<u>113</u>	<u>123,450</u>	<u>140,870</u>	<u>17,420</u>
Agency revenues						
Grants						
Investment and other revenues		3	3		37	37
Total Revenues	<u>13,305</u>	<u>13,421</u>	<u>116</u>	<u>123,450</u>	<u>140,907</u>	<u>17,457</u>
EXPENDITURES						
Town center facilities						
Public safety	13,000	13,000				
Public works				280,000	208,665	71,335
Capital improvement program						
Total Expenditures	<u>13,000</u>	<u>13,000</u>		<u>280,000</u>	<u>208,665</u>	<u>71,335</u>
Excess (Deficiency) of Revenues Over Expenses	<u>305</u>	<u>421</u>	<u>116</u>	<u>(156,550)</u>	<u>(67,758)</u>	<u>(53,878)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in					49,706	(49,706)
Transfers (out)						
Total Other Financing Sources					<u>49,706</u>	<u>(49,706)</u>
Net change in fund balances	<u>\$305</u>	<u>421</u>	<u></u>	<u>(\$156,550)</u>	<u>(18,052)</u>	<u>(\$103,584)</u>
Fund balances, beginning of Year		<u>3,811</u>			<u>18,052</u>	
Fund balances, (deficit) end of Year		<u>\$4,232</u>				

PUBLIC SAFETY COPS			LIBRARY FUND			MEASURE M		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
						\$123,000		(\$123,000)
\$100,000	\$95,797	(\$4,203)		\$1,094	\$1,094			
100,000	95,797	(4,203)		1,094	1,094	123,000		(123,000)
			\$32,500	23,260	9,240			
100,000	100,000						\$11,591	(11,591)
			65,000		65,000	123,000	98,000	25,000
100,000	100,000		97,500	23,260	74,240	123,000	109,591	13,409
	(4,203)	(4,203)	(97,500)	(22,166)	(73,146)		(109,591)	(109,591)
	(4,203)	(\$4,203)	(\$97,500)	(22,166)	(\$73,146)		(109,591)	(\$109,591)
	6,510			421,454			1,150	
	\$2,307			\$399,288			(\$108,441)	

(Continued)

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	ROAD IMPACT FEES			GRANTS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes						
Sales tax						
Gas tax						
Total taxes						
Agency revenues				\$264,600	\$224,000	
Grants				3,000	68,148	\$65,148
Investment and other revenues		\$80	\$80			
Total Revenues		80	80	267,600	292,148	65,148
EXPENDITURES						
Town center facilities						
Public safety						
Public works				3,000	4,086	(1,086)
Capital improvement program	\$41,000	41,169	(169)	264,600	248,344	16,256
Total Expenditures	41,000	41,169	(169)	267,600	252,430	15,170
Excess (Deficiency) of Revenues Over Expenses	(41,000)	(41,089)	(89)		39,718	49,978
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources						
Net change in fund balances	<u>(\$41,000)</u>	<u>(41,089)</u>	<u>(\$89)</u>		39,718	<u>\$49,978</u>
Fund balances, beginning of Year		<u>41,089</u>			<u>(43,889)</u>	
Fund balances, end of Year		<u><u> </u></u>			<u><u>(\$4,171)</u></u>	

STORM DAMAGE

Budget	Actual	Variance Positive (Negative)
\$285,000	\$73,482	(\$211,518)
<u>285,000</u>	<u>73,482</u>	<u>(211,518)</u>
285,000	218,078	66,922
<u>285,000</u>	<u>218,078</u>	<u>66,922</u>
	<u>(144,596)</u>	<u>(278,440)</u>
	<u>(144,596)</u>	<u>(\$278,440)</u>
	<u>(40,493)</u>	
	<u>(\$185,089)</u>	

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AGENCY FUNDS

Agency Funds are presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the Town as agent for individuals, governmental entities, and non-public organizations.

MAINTENANCE DISTRICTS

Accounts for all revenues and expenditures related to the maintenance districts.

TOWN OF PORTOLA VALLEY
 AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2015

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
<u>Maintenance Districts</u>				
<u>Assets</u>				
Cash and investments	\$314,230	\$38,740		\$352,970
Accounts and interest receivable	699		(\$2,223)	2,922
Total assets	\$314,929	\$38,740	(\$2,223)	\$355,892
<u>Liabilities</u>				
Deposits and other liabilities	\$314,929	\$38,740	(\$2,223)	\$355,892
<u>Total Agency Funds</u>				
<u>Assets</u>				
Cash and investments	\$314,230	\$38,740		\$352,970
Accounts and interest receivable	699		(\$2,223)	2,922
Total assets	\$314,929	\$38,740	(\$2,223)	\$355,892
<u>Liabilities</u>				
Deposits and other liabilities	\$314,929	\$38,740	(\$2,223)	\$355,892