



**TOWN OF PORTOLA VALLEY**  
**Finance Committee Meeting**  
**Wednesday, July 15– 4:00 PM**

**Special Videoconference Meeting via Zoom**

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**SPECIAL VIDEOCONFERENCE MEETING AGENDA**

**Join Zoom Meeting:**

<https://zoom.us/j/92402372338?pwd=WC9NZEpgZno1WDcrWE5BUWpRMmN2QT09>

**Phone into Zoom Meeting:**

1-669-900-6833

1-877-853-5247 Toll-free

**Meeting ID:** 924 0237 2338

**Password:** 105634

1. Call to Order
2. Roll Call
3. Oral Communications and Announcements
4. Approve minutes from December 5, 2019 meeting
5. New Business
  - a. Update, FY 2020-21 budget ([link to budget](#))
  - b. Review of FY 2018-19 audit
6. Old Business
  - a. Update, New ERP
  - b. Update, Schwab investments
7. Adjournment

**TOWN OF PORTOLA VALLEY**  
**Finance Committee Minutes**  
**Thursday, December 5, 2019**  
**Town Hall Conference Room**  
**765 Portola Road, Portola Valley, CA**

**Attendees**

Lucy Neely – Chair	Jeremy Dennis – Town Manager
Jason Pressman	Craig Hughes – Council Liaison
George Savage – Acting Secretary	Jim Saco – Consultant
Michele Takei	Ann Wengert – Mayor

**Call to Order**

The meeting was called to order by Lucy Neely at 5:31 pm.

**Roll Call**

The Chair confirmed attendance as detailed above.

**Oral Communications**

Lucy Neely told committee members to expect to receive an email asking if they were interested in continuing to serve during 2020.

Jeremy Dennis said that the Finance Director position would be discussed at our next meeting.

**Approval of Minutes**

The minutes of the committee meetings of May 30, 2019 and October 8, 2019 were approved as presented.

**New Business**

**OPEB Trust Fund—Review of Subcommittee Report**

Committee members reviewed and discussed the report of the subcommittee consisting of Bill Urban and Jason Pressman. In summary, the subcommittee recommends the Town establish a Sec. 115 OPEB Trust to fund expected other benefits liability with an initial dollar contribution up to the current unfunded liability balance. The CERBT fund offered by CalPERS is recommended over the PARS/HighMark advisory alternative. CERBT Strategy 1 is the recommended option if the Council elects to proceed with the OPEB Trust Fund and CalPERS offering.

Mr. Dennis is looking for an appropriate date to present the subcommittee report to the Town Council.

**Reserve Levels Policy and Fund Balance Assignments**

Members discussed data presented in a General Fund Reserve Policy Survey of CSMFO Members from May 2018. Mr. Saco explained the difference between fund balances and

reserves. Mr. Dennis suggested that a subcommittee be established to work with Town staff to assess current levels and categories. After discussion, Ken Lavine and George Savage were appointed to the subcommittee, which will meet in the new year to take up the matter and report back to the full committee.

### **Council Budget Study Session 3 of 3 – Expenditures in January**

Town expenditures and growth areas were reviewed by Mr. Dennis and discussed by the Committee. Salaries are the major expense for the Town and growth is limited to COLA at present, about 2-3%. There is no immediate need to add new positions or make leveling adjustments for current staff.

Software licensing expense has increased substantially between the 2016-2017 and 2019-2020 budget years. However, software capability and update frequency are increasing, which decreases the need for consultant expense, improves resident experience and allows Town staff to focus on value-added activities.

Given these factors, Mr. Pressman asked whether the Town is spending *enough* on software, providing a good introduction to the next topic.

### **Finance System ERP Discussion**

The Town ERP system (Fundbalance, Tyler Tech) is old and out-of-date. Jim Saco described some of its deficiencies, such as an inability to display budget data at the department level. It also has no import function, requiring data to be entered manually even if already available electronically in another format. The program cannot handle project cost accounting and does not interface with Tyler Tech's permitting software. Only one user can enter data at a time and no other users can log on to the system to review data while data entry is in process. A further frustrating limitation is that reports can only be run for the current and immediate prior year (i.e., two years total).

Staff is assessing options to replace the current system. OpenGov is one possibility. The town's current OpenGov installation was used to build last year's budget and reports will soon be published online for easy review by Town residents and other members of the public. Recent OpenGov corporate acquisitions now allow the company to offer a complete ERP system.

The rationale for spending more money on a capable ERP is to trade software dollars for labor cost. For instance, bank statement reconciliation using Fundbalance takes a full day but will require only 30 minutes using a modern ERP system. Labor productivity improvements will justify the additional software cost, which could approach \$100K.

The Committee members discussed the ERP software and alternatives, agreeing with Town staff objectives and the plan to have a new system in place by July 1, 2020. In addition to Redwood City-based OpenGov, staff will reach out to competitors such as Springboard and Qwestica.

**Old Business**

**Core Banking Operations Update (TechCU)**

The Tech Credit Union positive pay setup is working well. Now that this spending protection is in place, the Town is ready to transition from Bank of America.

**Adjournment**

The meeting was adjourned at 6:40 pm.

**TOWN OF PORTOLA VALLEY  
BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2019**

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**TOWN OF PORTOLA VALLEY**  
**Basic Financial Statements**  
**For the Year Ended June 30, 2019**  
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**TOWN OF PORTOLA VALLEY**  
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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

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, California (Town) as of and for the year ended June 30, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***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. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

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

Pleasant Hill, California

**DATE**

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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, liabilities and deferred inflows/outflows, 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 and Capital Projects 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, 2019

	Governmental Activities
<b>ASSETS</b>	
Cash and investments (Note 2)	\$16,507,934
Restricted cash (Note 2)	1,215,942
Accounts and interest receivable	309,263
Loans receivable (Note 5)	25,056
Capital assets, net (Note 3)	
Nondepreciable	7,255,612
Depreciable, net of accumulated depreciation	24,777,860
Total Assets	50,091,667
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions (Note 7)	484,210
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	811,775
Refundable customer deposits	1,224,541
Non-current liabilities:	
Accrued compensated absences (Note 1G)	94,438
Net Pension Liability (Note 7)	670,105
Net OPEB obligation (Note 8)	1,119,863
Total Liabilities	3,920,722
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions (Note 7)	189,744
<b>NET POSITION (Note 6)</b>	
Net investment in capital assets	32,033,472
Restricted for:	
Special Revenue Projects	10,473,786
Capital Projects	34,200
Unrestricted	3,923,953
Total Net Position	\$46,465,411

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Operating Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
General government	\$3,313,111	\$814,884	\$65,500	\$588,646	(\$1,844,081)
Parks and recreation	324,723	59,179			(265,544)
Town center facilities	638,788	245,989			(392,799)
Public safety	1,149,440		164,996		(984,444)
Public works	639,781		494,116	5,000	(140,665)
<b>Total governmental activities</b>	<b>\$6,065,843</b>	<b>\$1,120,052</b>	<b>\$724,612</b>	<b>\$593,646</b>	<b>(3,627,533)</b>
<b>General Revenues:</b>					
Property tax revenues.....					3,058,184
Other governmental agencies revenues.....					302,720
Franchise fees.....					311,471
Utility user tax.....					951,600
Investment earnings.....					357,834
Miscellaneous revenue.....					10,909
<b>Total general revenues</b>					<b>4,992,718</b>
Change in net position					1,365,185
Net Position, beginning of year, as restated (Note 6E)					45,100,226
Net Position, end of year					<b>\$46,465,411</b>

See accompanying notes to financial statements

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<b>TOWN OF PORTOLA VALLEY</b>
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<b>FUND FINANCIAL STATEMENTS</b>
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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 2019. 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, 2013 (Measure Q), 2018 (Measure T) and from private donations. Restricted for 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, 2019

	<u>General</u>	<u>Open Space Restricted</u>	<u>Inclusionary In-Lieu</u>
<b>ASSETS</b>			
Cash and investments (Note 2)	\$5,697,913	\$6,391,672	\$3,621,390
Restricted cash - customer deposits (Note 2)	1,215,942		
Accounts and interest receivable	188,903	54,890	19,661
Due from other funds (Note 4)	9,713		
Loans receivable (Note 5)	25,056		
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u><u>\$7,137,527</u></u>	<u><u>\$6,446,562</u></u>	<u><u>\$3,641,051</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$307,609	\$15,487	
Refundable deposits	1,224,541		
Due to other funds (Note 4)			
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>1,532,150</u>	<u>15,487</u>	
<b>FUND BALANCES (Note 6)</b>			
Nonspendable	25,056		
Restricted		6,431,075	\$3,641,051
Assigned	2,056,053		
Unassigned	3,524,268		
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Fund Balances	<u>5,605,377</u>	<u>6,431,075</u>	<u>3,641,051</u>
Total Liabilities and Fund Balances	<u><u>\$7,137,527</u></u>	<u><u>\$6,446,562</u></u>	<u><u>\$3,641,051</u></u>

See accompanying notes to financial statements

<u>Measure A</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$319,448	\$477,511	\$16,507,934
		1,215,942
26,522	19,287	309,263
		9,713
		25,056
<u>\$345,970</u>	<u>\$496,798</u>	<u>\$18,067,908</u>
\$275,000	\$213,679	\$811,775
		1,224,541
	9,713	9,713
<u>275,000</u>	<u>223,392</u>	<u>2,046,029</u>
70,970	431,290	25,056
		10,574,386
		2,056,053
	(157,884)	3,366,384
<u>70,970</u>	<u>273,406</u>	<u>16,021,879</u>
<u>\$345,970</u>	<u>\$496,798</u>	<u>\$18,067,908</u>

TOWN OF PORTOLA VALLEY  
RECONCILIATION OF THE  
GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2019

**Fund Balances - Total Governmental Funds** \$16,021,879

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	\$41,396,390	
Less: accumulated depreciation	<u>(9,362,918)</u>	32,033,472

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 - pension		484,210
Deferred inflows of resources - pension		<u>(189,744)</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		(670,105)
Net OPEB Liability		(1,119,863)
Compensated absences		<u>(94,438)</u>

**Net Position of Governmental Activities** \$46,465,411

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Open Space Restricted	Inclusionary In-Lieu
<b>REVENUES</b>			
Taxes			
Property taxes	\$3,058,184		
Sales tax	184,175		
Utility users tax	658,714	\$292,886	
Gas tax			
Business license tax and other taxes	87,232		
<b>Total taxes</b>	<b>3,988,305</b>	<b>292,886</b>	
Agency revenues	10,625		
Grants			
Contributions	250	588,646	
Franchise fees	311,471		
Licenses and permits	691,233		
Service charges and fees	123,651		
Parks and recreation	285,551		
Investment and other revenues	148,211	143,754	\$83,026
<b>Total Revenues</b>	<b>5,559,297</b>	<b>1,025,286</b>	<b>83,026</b>
<b>EXPENDITURES</b>			
General government	3,138,614		
Parks and recreation	262,579		
Town center facilities	134,912		
Public safety	981,691		
Public works	6,503		
Capital improvement program	168,968	37,631	
<b>Total Expenditures</b>	<b>4,693,267</b>	<b>37,631</b>	
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in (Note 4)		23,131	
Transfers (out) (Note 4)	(176,617)		
<b>Total other financing sources (uses)</b>	<b>(176,617)</b>	<b>23,131</b>	
<b>NET CHANGE IN FUND BALANCES</b>	<b>689,413</b>	<b>1,010,786</b>	<b>83,026</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>4,915,964</b>	<b>5,420,289</b>	<b>3,558,025</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$5,605,377</b>	<b>\$6,431,075</b>	<b>\$3,641,051</b>

See accompanying notes to financial statements

<u>Measure A</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
		\$3,058,184
\$323,067	\$16,249	523,491
	192,350	951,600
		192,350
		87,232
<u>323,067</u>	<u>208,599</u>	<u>4,812,857</u>
		10,625
	219,247	219,247
		588,896
		311,471
		691,233
		123,651
		285,551
3,978	8,528	387,497
<u>327,045</u>	<u>436,374</u>	<u>7,431,028</u>
		3,138,614
		262,579
	71,255	206,167
	160,000	1,141,691
	174,478	180,981
275,000	145,000	626,599
<u>275,000</u>	<u>550,733</u>	<u>5,556,631</u>
	153,486	176,617
		(176,617)
	<u>153,486</u>	
52,045	39,127	1,874,397
18,925	234,279	14,147,482
<u>\$70,970</u>	<u>\$273,406</u>	<u>\$16,021,879</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, 2019

**Net Change in Fund Balances - Total Governmental Funds** \$1,874,397

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

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	\$732,136	
Depreciation expense	<u>(967,156)</u>	(235,020)

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):

Pension expense		31,927
OPEB expense		(295,992)
Net change in compensated absences		<u>(10,127)</u>

**Change in Net Position of Governmental Activities** \$1,365,185

See accompanying notes to financial statements

**TOWN OF PORTOLA VALLEY**

**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, 2019

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 2)	\$600,912
Accounts and interest receivable	<u>3,604</u>
Total Assets	<u><u>\$604,516</u></u>
LIABILITIES	
Deposits and accrued liabilities	<u>\$604,516</u>
Total Liabilities	<u><u>\$604,516</u></u>

See accompanying notes to financial statements

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**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 Generally Accepted Accounting Principles (GAAP) as applied to governmental agencies. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing governmental accounting and financial reporting principles.

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.

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.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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:

**Agency Funds** 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*.

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.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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. *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 August 31 and becomes delinquent on September 30.

**F. *Implementation of Governmental Accounting Standards Board Statements***

The Town has implemented the requirements of the following GASB Pronouncements:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with retirement of tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognized a liabilities based on the guidance in this statement. This Statement had no impact on the Town's financial statement in fiscal year 2018-19.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

GASB Statement No. 88 – *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement had no impact on the Town’s financial statement in fiscal year 2018-19.

**G. *Compensated Absences***

Compensated absences represent the vested portion of accumulated vacation and compensation time. 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	\$84,311
Additions	93,256
Payments	<u>(83,129)</u>
Ending balance	<u><u>\$94,438</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 separation, 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.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Use of Estimates**

The preparation of financial statements in conformity with 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.

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

In addition to assets, the statement of net 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 net 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.

**K. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 2 - CASH AND INVESTMENTS**

The Town maintains a cash and investment pool for all funds consistent with the Town's investment policy and relevant governmental code.

**A. Policies**

The California Government Code requires California banks and savings and loan associations to secure the Town's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Town's name.

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 Town's total cash deposits, as collateral for these deposits. The Town may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Town, however, has not waived the collateralization requirements. 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 follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agent is credited directly to the related fund.

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.

**B. Classification**

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

Statement of Net Position:	
Cash and investments	\$16,507,934
Restricted cash and investments	1,215,942
Cash and investments of the Town	<u>17,723,876</u>
Cash and investments in Agency Funds	<u>600,912</u>
Total cash and investments	<u><u>\$18,324,788</u></u>

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
California Local Agency Investment Fund	N/A	None	\$65 million
U.S. Treasury Obligations	5 years	None	None
US Government Agency Bonds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Negotiable Certificates of Deposits	5 years	30%	None
Money Market and Mutual funds *	Upon Demand	None	None

\* For Funds investing over 80% of assets in either:

- 1) short to medium term corporate bonds holding an average credit not to exceed 30% of surplus funds, of rating of "A" or better
- 2) short to medium term Federal Agency or U.S. Government sponsored enterprise obligations.

The Town does not enter into any 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.

Information on the fair values of the Town's cash and investments at June 30, 2019, is provided by the following table:

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	\$14,496,324	\$14,496,324
Money Market Mutual Funds	522,071	522,071
Total Investments	<u>15,018,395</u>	15,018,395
Cash in Bank		3,304,893
Cash on Hand		<u>1,500</u>
Total Cash		<u>3,306,393</u>
Total cash and investments		<u>\$18,324,788</u>



**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

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, United States Treasury Notes and Bills, and corporations. At June 30, 2019, these investments matured in an average of 173 days.

Money market mutual funds are available for withdrawal on demand and at June 30, 2019, had an average maturity date of 30 days.

**E. Credit Risk**

Credit Risk is the risk that an issuer will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) the California Government Code, the City's investment policy, and actual ratings as of June 30, 2019 for each investment type as provided by Moody's investment type rating system (as date of the purchase):

Investment Type	AAm/AAA	Not Rated	Total
California Local Agency Investment Fund		\$14,496,324	\$14,496,324
Money Market Mutual Funds	\$522,071		522,071
Total Investments	\$522,071	\$14,496,324	\$15,018,395

**F. Fair Value Hierarchy**

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets.

The California Local Agency Investment Fund is reported at amortized cost, and is not subject to the fair value reporting requirements. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

**G. Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Significant investments in the securities of any individual issuers, other than U.S. Treasury securities or mutual funds would be subjected to this risk. As of June 30, 2019, no investments were subjected to custodial credit risk on the entity-wide level.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**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.

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:

<u>Asset Class</u>	<u>Useful Lives</u>
Infrastructure	50 years
Improvements other than Buildings	50 years
Buildings and Improvements	20 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.

<b>TOWN OF PORTOLA VALLEY</b> <b>NOTES TO BASIC FINANCIAL STATEMENTS</b> <b>For the Year Ended June 30, 2019</b>
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<b>NOTE 3 - CAPITAL ASSETS (Continued)</b>
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**A. Capital Assets**

Capital assets activities during the fiscal year ended June 30, 2019 was as follows:

	Balance June 30, 2018	Additions	Transfers/Adjustments	Balance June 30, 2019
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$6,690,959			\$6,690,959
Construction in Progress	216,388	\$564,654	(\$216,389)	564,653
Total capital assets not being depreciated	6,907,347	564,654	(216,389)	7,255,612
Capital assets being depreciated:				
Infrastructure	10,362,143		407,111	10,769,254
Land improvements	3,103,016		(32,586)	3,070,430
Buildings and improvements	19,838,321		85	19,838,406
Equipment	453,427	9,261		462,688
Total capital assets being depreciated	33,756,907	9,261	374,610	34,140,778
Less accumulated depreciation for:				
Infrastructure	(3,298,697)	(458,800)		(3,757,497)
Land improvements	(1,063,718)	(83,183)		(1,146,901)
Buildings and improvements	(3,753,090)	(396,767)		(4,149,857)
Equipment	(280,257)	(28,406)		(308,663)
Total accumulated depreciation	(8,395,762)	(967,156)		(9,362,918)
Total depreciable assets, net	25,361,145	(957,895)	374,610	24,777,860
Capital assets, net	\$32,268,492	(\$393,241)	\$158,221	\$32,033,472

**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:

<b>Governmental Activities</b>	
General Government	\$5,842
Parks and Recreation	62,144
Town Center Facilities	432,621
Public Safety	7,749
Public Works	458,800
Total Governmental Activities	\$967,156

<b>TOWN OF PORTOLA VALLEY</b> <b>NOTES TO BASIC FINANCIAL STATEMENTS</b> <b>For the Year Ended June 30, 2019</b>
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<b>NOTE 4 - INTERFUND TRANSACTIONS</b>
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**A. Interfund Transfers**

With Council approval, resources may be transferred from one Town fund to another, Interfund transfers for the year of June 30, 2019, were as follows:

Transfers in	Transfers Out	Total
Open Space Fund	General Fund	\$23,131
Non-Major Governmental Funds	General Fund	153,486
		\$176,617

**B. 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, 2019 interfund balances were as follows:

Due From Other funds	Due To Other Funds	Total
General Fund	Non-Major Governmental Funds	\$9,713

<b>NOTE 5 - LOANS RECEIVABLE</b>
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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 an annual basis. As of June 30, 2019, the remaining balance of the loans is \$25,056.

<b>NOTE 6 - NET POSITION AND FUND BALANCES</b>
--

**A. Net Position**

Net Position is measured on the full accrual basis and is the excess 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.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 6 - NET POSITION AND FUND BALANCES (Continued)**

**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.

*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.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 6 - NET POSITION AND FUND BALANCES (Continued)**

Detailed classifications of the Town's fund balances, as of June 30, 2019, are below:

	General Fund	Open Space Restricted Special Revenue Fund	Inclusionary In-lieu Special Revenue Fund	Measure A Special Revenue Fund	Other Governmental Funds	Total
Fund balances:						
<b>Nonpendables:</b>						
Loans receivable	\$25,056					\$25,056
<b>Total nonpendable</b>	<b>25,056</b>					<b>25,056</b>
<b>Restricted for:</b>						
Open space acquisition		\$6,431,075				6,431,075
Public safety COPS					\$112,473	112,473
Library fund					218,217	218,217
Park in-lieu					34,200	34,200
Grants					66,400	66,400
Inclusionary in-lieu			\$3,641,051			3,641,051
Measure A				\$70,970		70,970
<b>Total restricted</b>		<b>6,431,075</b>	<b>3,641,051</b>	<b>70,970</b>	<b>431,290</b>	<b>10,574,386</b>
<b>Assigned to:</b>						
Unfunded pension reserve	47,773					47,773
Equipment replacement	200,000					200,000
Capital replacement/repairs	1,400,000					1,400,000
OPEB	308,280					308,280
Legal contingency	100,000					100,000
<b>Total assigned</b>	<b>2,056,053</b>					<b>2,056,053</b>
<b>Unassigned</b>	<b>3,524,268</b>				<b>(157,884)</b>	<b>3,366,384</b>
<b>Total fund balances</b>	<b>\$5,605,377</b>	<b>\$6,431,075</b>	<b>\$3,641,051</b>	<b>\$70,970</b>	<b>\$273,406</b>	<b>\$16,021,879</b>

**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, 2019 is as follows:

Fiscal 2019-20 Adopted Budget General Fund Operating Expenditures	\$7,784,770
Multiplied by 60%:	
Required minimum unrestricted General Fund fund balance	\$4,670,862
General Fund unrestricted fund balance as of June 30, 2019	\$5,580,321

**D. Fund Balance Deficit**

As of June 30, 2019, the Public Safety Special Revenue Fund, Gas Tax Special Revenue Fund, and Measure M Special Revenue Fund had fund balance deficits of \$6,326, \$80,461 and \$72,098, respectively. The fund deficits are expected to be eliminated by future revenues.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**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 Description** – All qualified permanent and probationary employees are eligible to participate in the Town's separate Miscellaneous Employee Pension Rate Plans. The Town's Miscellaneous Rate Plan is part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The Town sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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, 2019, are summarized as follows:

	<b>Miscellaneous</b>	
	<b>Classic</b>	<b>PEPRA</b>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 67+	52 - 67+
Monthly benefits, as a % of eligible compensation	1.426 - 2.418%	1.000 - 2.500%
Required employee contribution rates	6.902%	6.250%
Required employer contribution rates	8.892%	6.842%

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 - PENSION PLAN (Continued)**

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability (UAL). The dollar amounts are billed on a monthly basis. The City's required contributions for the unfunded liability in the Miscellaneous Plan was \$27,729.

**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 the Plan 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.

For the year ended June 30, 2019, the Town's contributions to the Plan were as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$153,312

**B. Net Pension Liability**

As of June 30, 2019, the Town reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$670,105

The Town's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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 plan relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2017 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2017	0.01807%
Proportion - June 30, 2018	0.01778%
Change - Increase (Decrease)	-0.00029%



**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 - PENSION PLAN (Continued)**

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

For the year ended June 30, 2019, the Town recognized pension expense of \$22,410. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$153,312	
Differences between actual and expected experience	25,711	(\$8,749)
Changes of assumptions	76,394	(18,723)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	225,480	(162,272)
Change in proportion		
Net differences between projected and actual earnings on plan investments	3,313	
Total	\$484,210	(\$189,744)

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	3.2% -12.2% (2)
Investment Rate of Return	7.15% (3)
Mortality	Derived using CalPERS' Membership Data for all funds (4)
Post Retirement Benefit Increase	Contract COLA up to 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50 % thereafter

(1) Actuarial assumptions are the same for all benefits tiers ( Classic Tier I, Classic Tier II, and PEPRA)

(2) Depending on age, service and type of employment.

(3) Net of pension plan investment expenses, including inflation.

(4) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2017 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 - PENSION PLAN (Continued)**

*Change of Assumptions* – For the measurement date of June 30, 2018, the inflation rate reduced from 2.75% to 2.50%.

*Discount Rate* – The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, each Plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members for all plans in the PERF. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payment to determine the total pension liability for each Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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, staff 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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 adjusted to account for assumed administration expenses.

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

Asset Class (a)	Current Target Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100%</u>		

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.0% is used this period.

(c) An expected inflation of 2.92% used for this period.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 7 - PENSION PLAN (Continued)**

*Sensitivity 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 the Plan, calculated using the discount rate for the 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:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$1,652,377
Current Discount Rate	7.15%
Net Pension Liability	\$670,105
1% Increase	8.15%
Net Pension Liability (Asset)	(\$140,745)

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

The \$153,312 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, 2020. 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	Annual Amortization
2020	70,310
2021	59,991
2022	16,880
2023	(6,027)
Total	\$141,154

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS**

**A. General Information about the Town’s OPEB Plan**

*Plan Description*

The Town’s Post Employment Benefit Plan is a single-employer defined benefit OPEB plan. 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

<p><b>TOWN OF PORTOLA VALLEY</b>  <b>NOTES TO BASIC FINANCIAL STATEMENTS</b>  <b>For the Year Ended June 30, 2019</b></p>
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<p><b>NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS (Continued)</b></p>
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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](http://www.calpers.ca.gov). Eligibility and the Town contributions toward month premiums are as follows:

***Benefits Provided***

The following is a summary of Plan benefits by employee group as of June 30, 2019:

***Eligibility***

Minimum age before retirement	50
Minimum required years of service:	5

***Health Benefit - Employer Contribution***

***Monthly Premiums***

BlueShield HMO medical, pharmacy	\$128
Kaiser medical, pharmacy coverage	\$128
PERSChoice medical, pharmacy coverage	\$128

***Employees Covered by Benefit Terms***

Membership in the plan consisted of the following at the measurement date of June 30, 2019:

Active employees	14
Inactive employees or beneficiaries currently receiving benefit payments	4
Total	18

<b>TOWN OF PORTOLA VALLEY</b> <b>NOTES TO BASIC FINANCIAL STATEMENTS</b> <b>For the Year Ended June 30, 2019</b>
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<b>NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS (Continued)</b>
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**B. Total OPEB Liability**

**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:

	Actuarial Assumptions
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Actuarial Assumptions:	
Discount Rate	2.15%
Payroll Growth	1.11%
Mortality Rate	Based on RP2000 Mortality Table
Amortization Period	20 years
Pre-Retirement Turnover	Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System
Healthcare Trend Rates	4.6% trending up to 4.7% over 10 years

The discount rate was based on the long-term expected rate of return on OPEB plan investments.

**C. Changes in Total OPEB Liability**

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2018	\$823,871		\$823,871
Changes Recognized for the Measurement Period:			
Service cost	92,662		92,662
Interest on the total OPEB liability	35,711		35,711
Changes of benefit terms			
Differences between expected and actual experience			
Economic gains or losses	(84,838)		(84,838)
Changes of assumptions	258,913		258,913
Contributions from the employer		\$6,456	(6,456)
Benefit payments	(6,456)	(6,456)	
Net changes	295,992	0	295,992
Balance at June 30, 2019 (Measurement Date)	\$1,119,863	\$0	\$1,119,863

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS (Continued)**

**D. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates**

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.15%) or 1-percentage-point higher (3.15%) than the current discount rate:

Total OPEB Liability/(Asset)		
Discount Rate -1%	Discount Rate	Discount Rate +1%
(1.15%)	(2.15%)	(3.15%)
\$1,312,292	\$1,119,863	\$961,972

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates of 4.6%, trending up to 4.7% over 10 year:

Total OPEB Liability/(Asset)		
Trend rate -1%	Current Healthcare Cost	Trend rate +1%
\$917,120	Trend Rates	\$1,380,174
\$917,120	\$1,119,863	\$1,380,174

**NOTE 9 - RISK MANAGEMENT**

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

**A. Liability Coverage**

The Town, along with 28 other Bay Area governments, is a member of the of the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA), a joint powers insurance authority consisting of 28 member cities in the San Francisco Bay Area, a public-entity risk pool. PLAN JPA provides liability insurance coverage, claims management, risk management services and legal defense to its participating members. PLAN JPA is governed by a Board of Directors, which is comprised of officials appointed by each participating member. Premiums paid to PLAN JPA are subject to a possible refund based on the results of actuarial studies and approval by PLAN JPA's Board of Directors. In the opinion of the Town management, premiums made represent the best available estimate of the ultimate cost of the Town's participation in PLAN JPA and, accordingly, the accompanying basic financial statements of the Town include no provisions for possible refunds or additional assessments. Actual refunds and assessments arising from retrospective premium adjustments relating to prior loss years will be recorded in the Town's basic financial statements in the year they become known. During the fiscal year ended June 30, 2019, the Town contributed \$66,909 for current year coverage.

**TOWN OF PORTOLA VALLEY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2019**

**NOTE 9 - RISK MANAGEMENT (Continued)**

Prior to January 2018 the Town participated in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. On January 16, 2018, ABAG Plan Corporation transitioned to PLAN JPA.

Audited financial information for the JPA may be obtained from PLAN JPA at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

**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, 2019, the Town contributed \$37,088 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, 2019 is believed by management to be de minimis 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, California, 94070. The Town's payments to C/CAG during the year totaled \$28,088. 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, 2019**

**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, at which the agreement shall terminate on June 30 of the following fiscal year. 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, CA 94402.

**NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES**

**A. *Outstanding Litigation***

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.



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**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PORTOLA VALLEY**  
**Pension Plan**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**Last 10 Fiscal Years\***

<b>Measurement Date</b>	<b><u>6/30/2014</u></b>	<b><u>6/30/2015</u></b>	<b><u>6/30/2016</u></b>	<b><u>6/30/2017</u></b>	<b><u>6/30/2018</u></b>
Plan's proportion of the Net Pension Liability (Asset)	0.03873%	0.00301%	0.01508%	0.01807%	0.01778%
Plan's proportion share of the Net Pension Liability (Asset)	\$957,322	\$82,489	\$523,840	\$712,486	\$670,105
Plan's Covered Payroll	\$993,466	\$1,071,540	\$1,442,039	\$1,522,511	\$1,524,652
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	96.36%	7.70%	36.33%	46.80%	0.43951341
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%	98.59%	91.78%	89.69%	77.69%

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

**Changes in assumptions.** GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2016 and 2018, (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.5% discount rate. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 and 2016 measurement dates.

\* Fiscal year 2015 was the 1st year of implementation. Additional years will be displayed as they become available.

**TOWN OF PORTOLA VALLEY**  
**Pension Plan**  
**SCHEDULE OF CONTRIBUTIONS**  
**Last 10 Fiscal Years\***

<u>Fiscal Year Ended June 30</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>
Actuarially determined contribution	\$111,313	\$84,007	\$116,123	\$141,356	\$153,312
Contributions in relation to the actuarially determined contributions	(111,313)	(84,007)	(116,123)	(141,356)	(153,312)
Additional Contributions	(907,699)	-	-	-	-
Contribution deficiency (excess)	<u>(\$907,699)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$993,466	\$1,071,540	\$1,442,039	\$1,522,511	\$1,524,652
Contributions as a percentage of covered payroll	11.20%	7.84%	8.05%	9.28%	10.06%
<b>Notes to Schedule</b>					
Valuation date	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll
Remaining amortization period	15 Years as of the Valuation Date
Asset valuation method	Market Value of Assets
Inflation	2.75%
Salary increase	3.3% to 14.20% depending on Age, Service, and type of employment
Investment rate of return	7.50% for 2015 to 2018 7.375% for 2019, net of administrative expenses, includes inflation.
Retirement age	The probabilities of retirement and mortality are based on 2014 CalPERS experience study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**TOWN OF PORTOLA VALLEY**  
**OPEB Plan**  
**SCHEDULE OF CHANGES IN THE**  
**TOTAL OPEB LIABILITY AND RELATED RATIOS**  
Last 10 fiscal years\*

<b>Measurement Date</b>	<b>6/30/18</b>	<b>6/30/19</b>
<b>Total OPEB Liability (1)</b>		
Service Cost	\$92,662	\$92,662
Interest		35,711
Changes of benefit terms		
Differences between expected and actual experience		
Economic gains or losses		(84,838)
Changes of assumptions		258,913
Benefit payments	(51,432)	(6,456)
<b>Net change in total OPEB liability</b>	41,230	295,992
<b>Total OPEB liability - beginning</b>	782,641	823,871
<b>Total OPEB liability - ending (a)</b>	<b>\$823,871</b>	<b>\$1,119,863</b>
Covered-employee payroll	<b>\$1,522,511</b>	<b>\$1,524,652</b>
Total OPEB liability as a percentage of covered-employee payroll	54.11%	73.45%

**Notes to Schedule:**

(1) No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

\* Fiscal year 2018 was the first year of implementation.

TOWN OF PORTOLA VALLEY  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>				
Taxes:				
Property taxes	\$3,024,063	\$3,024,063	\$3,058,184	\$34,121
Sales tax	206,836	206,836	184,175	(22,661)
Business license tax and other taxes	105,000	105,000	87,232	(17,768)
<b>Total Taxes</b>	<u>3,335,899</u>	<u>3,335,899</u>	<u>3,329,591</u>	<u>(6,308)</u>
Franchise fees	306,250	306,250	311,471	5,221
Utility users tax	586,800	586,800	658,714	71,914
Agency revenues	11,000	11,000	10,625	(375)
Contributions	2,000	2,000	250	(1,750)
Licenses and permits	626,500	626,500	691,233	64,733
Service charges and fees	127,555	127,555	123,651	(3,904)
Parks and recreation	300,150	300,150	285,551	(14,599)
Investment and other revenues	98,500	98,500	148,211	49,711
<b>Total Revenues</b>	<u>5,394,654</u>	<u>5,394,654</u>	<u>5,559,297</u>	<u>164,643</u>
<b>EXPENDITURES</b>				
General government	3,629,198	3,701,822	3,138,614	563,208
Parks and recreation	271,600	282,600	262,579	20,021
Town center facilities	185,440	185,440	134,912	50,528
Public safety	990,345	990,345	981,691	8,654
Public works	6,000	6,000	6,503	(503)
Capital improvement program	435,100	734,858	168,968	565,890
<b>Total Expenditures</b>	<u>5,517,683</u>	<u>5,901,065</u>	<u>4,693,267</u>	<u>1,207,798</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(123,029)</u>	<u>(506,411)</u>	<u>866,030</u>	<u>1,372,441</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (out)	<u>(132,196)</u>	<u>(187,696)</u>	<u>(176,617)</u>	<u>11,079</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(132,196)</u>	<u>(187,696)</u>	<u>(176,617)</u>	<u>11,079</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>(\$255,225)</u></u>	<u><u>(\$694,107)</u></u>	<u>689,413</u>	<u><u>\$1,383,520</u></u>
Fund balance at beginning of year			<u>4,915,964</u>	
Fund balance at end of year			<u><u>\$5,605,377</u></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, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Utility users tax	\$272,000	\$292,886	\$20,886
Contribution	15,500	588,646	573,146
Investment and other revenues		143,754	143,754
	<u>287,500</u>	<u>1,025,286</u>	<u>737,786</u>
<b>EXPENDITURES</b>			
Capital improvement program	<u>70,000</u>	<u>37,631</u>	<u>32,369</u>
Total Expenditures	<u>70,000</u>	<u>37,631</u>	<u>32,369</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(419,000)</u>	<u>987,655</u>	<u>(1,406,655)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (in)	<u>(55,500)</u>	<u>23,131</u>	<u>(78,631)</u>
Total Other Financing Sources (Uses)	<u>(55,500)</u>	<u>23,131</u>	<u>(78,631)</u>
Net change in fund balance	<u>\$217,500</u>	1,010,786	<u>\$793,286</u>
Fund balance at beginning of year		<u>5,420,289</u>	
Fund balance at end of year		<u>\$6,431,075</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, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Sales tax	\$275,000	\$323,067	\$48,067
Investment and other revenues		<u>3,978</u>	<u>3,978</u>
Total Revenues	<u>275,000</u>	<u>327,045</u>	<u>52,045</u>
<b>EXPENDITURES</b>			
Capital improvement program	<u>558,823</u>	<u>275,000</u>	<u>283,823</u>
Total Expenditures	<u>558,823</u>	<u>275,000</u>	<u>283,823</u>
Net change in fund balance	<u><u>(\$283,823)</u></u>	52,045	<u><u>\$335,868</u></u>
Fund balance at beginning of year		<u>18,925</u>	
Fund balance at end of year		<u><u>\$70,970</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.

## **SUPPLEMENTAL INFORMATION**

<b>NON-MAJOR GOVERNMENTAL FUNDS</b>
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**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 gasoline tax allocated by the state for street maintenance, repair and improvement.

**PUBLIC SAFETY COPS (Citizens' Options for Public Safety)**

Accounts for the Supplemental State law Enforcement Fund Service Account (SLESA) revenue for special law and traffic enforcement established by SB89.

**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 motor vehicle registration fee revenue to be used for traffic congestion and water pollution mitigation programs.

**CAPITAL PROJECTS FUNDS:****PARK IN-LIEU**

Accounts for the subdivision developer's fee restricted for parks or recreational purposes.

**GRANTS**

Accounts for various grant activities.

**STORM DAMAGE**

Accounts for federal or state-reimbursed storm-related road repairs as needed.

TOWN OF PORTOLA VALLEY  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2019

	Special Revenue Funds			
	Public Safety	Gas Tax	Public Safety COPS	Library Fund
<b>ASSETS</b>				
Cash and investments		\$34,120	\$111,909	\$231,067
Accounts and interest receivable	\$1,194	15,959	564	1,385
Total Assets	<u>\$1,194</u>	<u>\$50,079</u>	<u>\$112,473</u>	<u>\$232,452</u>
<b>LIABILITIES</b>				
Accounts payable		\$130,540		\$14,235
Due to other funds	\$7,520			
Total Liabilities	<u>7,520</u>	<u>130,540</u>		<u>14,235</u>
<b>FUND BALANCES (DEFICIT)</b>				
Restricted			\$112,473	218,217
Unassigned	(6,326)	(80,461)		
Total Fund Balance	<u>(6,326)</u>	<u>(80,461)</u>	<u>112,473</u>	<u>218,217</u>
Total Liabilities and Fund Balances	<u>\$1,194</u>	<u>\$50,079</u>	<u>\$112,473</u>	<u>\$232,452</u>

Special Revenue Funds	Capital Projects Funds			
Measure M	Park In-Lieu	Grants	Storm Damage	Totals
	\$34,015	\$66,400		\$477,511
	185			19,287
	<u>\$34,200</u>	<u>\$66,400</u>		<u>\$496,798</u>
\$68,904				\$213,679
2,193				9,713
<u>71,097</u>				<u>223,392</u>
(71,097)	\$34,200	\$66,400		431,290
				(157,884)
<u>(71,097)</u>	<u>34,200</u>	<u>66,400</u>		<u>273,406</u>
	<u>\$34,200</u>	<u>\$66,400</u>		<u>\$496,798</u>

TOWN OF PORTOLA VALLEY  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue Funds			
	Public Safety	Gas Tax	Public Safety COPS	Library Fund
<b>REVENUES</b>				
Taxes:				
Sales tax	\$16,249			
Gas tax		\$192,350		
Total taxes	16,249	192,350		
Agency revenues				
Grants			\$148,747	
Investment and other revenues	(43)	(613)	2,141	\$6,263
Total Revenues	16,206	191,737	150,888	6,263
<b>EXPENDITURES</b>				
Town center facilities				71,255
Public safety	15,000		145,000	
Public works		145,960		
Capital improvement program		78,000		
Total Expenditures	15,000	223,960	145,000	71,255
<b>OTHER FINANCING SOURCES</b>				
Transfers in (Note 4)		132,196		
Transfers in (Note 4)				
Total other financing sources		132,196		
Net change in fund balances	1,206	99,973	5,888	(64,992)
Fund balances at beginning of year	(7,532)	(180,434)	106,585	283,209
Fund balances (deficit) at end of year	(\$6,326)	(\$80,461)	\$112,473	\$218,217

Special Revenue Funds	Capital Projects Funds			
Measure M	Park In-Lieu	Grants	Storm Damage	Totals
				\$16,249
				192,350
				208,599
		\$70,500		219,247
	\$780			8,528
	780	70,500		436,374
				71,255
				160,000
\$11,897		16,621		174,478
67,000				145,000
78,897		16,621		550,733
			\$21,290	153,486
			21,290	153,486
(78,897)	780	53,879	21,290	39,127
7,800	33,420	12,521	(21,290)	234,279
(\$71,097)	\$34,200	\$66,400		\$273,406

TOWN OF PORTOLA VALLEY  
NON-MAJOR GOVERNMENTAL FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019

	Public Safety			Gas Tax		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
Taxes						
Sales tax	\$15,000	\$16,249	\$1,249			
Gas tax				\$182,459	\$192,350	\$9,891
Total taxes	<u>15,000</u>	<u>16,249</u>	<u>1,249</u>	<u>182,459</u>	<u>192,350</u>	<u>9,891</u>
Agency revenues						
Grants						
Investment and other revenues		(43)	(43)	(100)	(613)	(513)
Total Revenues	<u>15,000</u>	<u>16,206</u>	<u>1,206</u>	<u>182,359</u>	<u>191,737</u>	<u>9,378</u>
<b>EXPENDITURES</b>						
Town center facilities						
Public safety	15,000	15,000				
Public works				236,755	145,960	90,795
Capital improvement program				78,000	78,000	
Total Expenditures	<u>15,000</u>	<u>15,000</u>		<u>314,755</u>	<u>223,960</u>	<u>90,795</u>
Excess (Deficiency) of Revenues Over Expenses		<u>1,206</u>	<u>1,206</u>	<u>(132,396)</u>	<u>(32,223)</u>	<u>(81,417)</u>
<b>OTHER FINANCING SOURCES</b>						
Transfers in				132,196	132,196	
Transfers out						
Total Other Financing Sources				<u>132,196</u>	<u>132,196</u>	
Net change in fund balances		<u>1,206</u>	<u>\$1,206</u>	<u>(\$200)</u>	99,973	<u>(\$81,417)</u>
Fund balances, beginning of Year		<u>(7,532)</u>			<u>(180,434)</u>	
Fund balances (deficit), end of Year		<u>(\$6,326)</u>			<u>(\$80,461)</u>	



Public Safety COPS			Library Fund			Measure M		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
						\$113,300		(\$113,300)
\$145,000	\$148,747	\$3,747						
(500)	2,141	2,641	\$104,100	\$6,263	(\$97,837)	300		(300)
144,500	150,888	6,388	104,100	6,263	(97,837)	113,600		(113,600)
145,000	145,000		104,100	71,255	32,845			
						11,000	\$11,897	(897)
						102,000	67,000	35,000
145,000	145,000		104,100	71,255	32,845	113,000	78,897	34,103
(500)	5,888	6,388		(64,992)	(130,682)	600	(78,897)	(79,497)
<u>(\$500)</u>	5,888	<u>\$6,388</u>	<u></u>	(64,992)	<u>(\$130,682)</u>	<u>\$600</u>	(78,897)	<u>(\$79,497)</u>
	106,585			283,209			7,800	
	<u>\$112,473</u>			<u>\$218,217</u>			<u>(\$71,097)</u>	

(Continued)

TOWN OF PORTOLA VALLEY  
NON-MAJOR GOVERNMENTAL FUNDS  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019

	Park in Lieu			Grants	
	Budget	Actual	Variance Positive (Negative)	Budget	Actual
<b>REVENUES</b>					
Taxes					
Sales tax					
Gas tax					
Total taxes					
Agency revenues					
Grants				\$1,600	\$70,500
Investment and other revenues	(\$200)	\$780	\$980		
Total Revenues	<u>(200)</u>	<u>780</u>	<u>980</u>	<u>1,600</u>	<u>70,500</u>
<b>EXPENDITURES</b>					
Town center facilities					
Public safety					
Public works				26,600	16,621
Capital improvement program					
Total Expenditures				<u>26,600</u>	<u>16,621</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(200)</u>	<u>780</u>	<u>980</u>	<u>(25,000)</u>	<u>53,879</u>
<b>OTHER FINANCING SOURCES</b>					
Transfers in					
Transfers out					
Total Other Financing Sources					
Net change in fund balances	<u>(\$200)</u>	780	<u>\$980</u>	<u>(\$25,000)</u>	53,879
Fund balances, beginning of Year		<u>33,420</u>			<u>12,521</u>
Fund balances (deficit), end of Year		<u>\$34,200</u>			<u>\$66,400</u>

<u>Variance Positive (Negative)</u>	<u>Storm Damage</u>		<u>Variance Positive (Negative)</u>
	<u>Budget</u>	<u>Actual</u>	
\$68,900			
68,900			
9,979			
9,979			
58,921			
		\$21,290	
		21,290	
<u>\$58,921</u>	<u>          </u>	21,290	<u>          </u>
		<u>(21,290)</u>	
		<u>          </u>	

<b>AGENCY FUNDS</b>
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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 following maintenance districts formed to maintain roads within the individual district boundaries with governance separate from the Town Council. The Town acts as a fiduciary custodian for the maintenance district assessment revenue collected and disbursed from the County:

**CRESCENT MAINTENANCE DISTRICT**

**PORTOLA VALLEY RANCH MAINTENANCE DISTRICT**

**WAYSIDE ROAD I MAINTENANCE DISTRICT**

**WAYSIDE ROAD II MAINTENANCE DISTRICT**

**WOODSIDE HIGHLANDS MAINTENANCE DISTRICT**

TOWN OF PORTOLA VALLEY  
 AGENCY FUNDS  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE YEAR ENDED JUNE 30, 2019

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<b><u>Crescent Maintenance District</u></b>				
<u>Assets</u>				
Cash and investments	\$115,284	\$21,704	\$241	\$136,747
Accounts and interest receivable	551	240		791
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$115,835</u>	<u>\$21,944</u>	<u>\$241</u>	<u>\$137,538</u>
<u>Liabilities</u>				
Deposits and other liabilities	<u>\$115,835</u>	<u>\$21,944</u>	<u>\$241</u>	<u>\$137,538</u>
<b><u>Portola Valley Ranch Maintenance District</u></b>				
<u>Assets</u>				
Cash and investments	\$30,977	\$1,445	\$38	\$32,384
Accounts and interest receivable	142	37		179
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$31,119</u>	<u>\$1,482</u>	<u>\$38</u>	<u>\$32,563</u>
<u>Liabilities</u>				
Deposits and other liabilities	<u>\$31,119</u>	<u>\$1,482</u>	<u>\$38</u>	<u>\$32,563</u>
<b><u>Wayside Road I Maintenance District</u></b>				
<u>Assets</u>				
Cash and investments	\$7,303	\$171	\$17	\$7,457
Accounts and interest receivable	24	16		40
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$7,327</u>	<u>\$187</u>	<u>\$17</u>	<u>\$7,497</u>
<u>Liabilities</u>				
Deposits and other liabilities	<u>\$7,327</u>	<u>\$187</u>	<u>\$17</u>	<u>\$7,497</u>

(Continued)

**Wayside Road II Maintenance District**

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Assets

Cash and investments	\$52,734	\$41,133	\$6,532	\$87,335
Accounts and interest receivable	334	268		602
Total assets	<u>\$53,068</u>	<u>\$41,401</u>	<u>\$6,532</u>	<u>\$87,937</u>

Liabilities

Deposits and other liabilities	<u>\$53,068</u>	<u>\$41,401</u>	<u>\$6,532</u>	<u>\$87,937</u>
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**Woodside Highlands Maintenance District**

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Assets

Cash and investments	\$274,624	\$67,176	\$4,811	\$336,989
Accounts and interest receivable	1,331	661		1,992
Total assets	<u>\$275,955</u>	<u>\$67,837</u>	<u>\$4,811</u>	<u>\$338,981</u>

Liabilities

		\$63,026		
Deposits and other liabilities	<u>\$275,955</u>	<u>\$67,837</u>	<u>\$4,811</u>	<u>\$338,981</u>
Total liabilities	<u>\$275,955</u>	<u>\$67,837</u>	<u>\$4,811</u>	<u>\$338,981</u>

**Total Agency Funds**

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Assets

Cash and investments	\$480,922	\$131,629	\$11,639	\$600,912
Accounts and interest receivable	2,382	1,222		3,604
Total assets	<u>\$483,304</u>	<u>\$132,851</u>	<u>\$11,639</u>	<u>\$604,516</u>

Liabilities

Deposits and other liabilities	<u>\$483,304</u>	<u>\$132,851</u>	<u>\$11,639</u>	<u>\$604,516</u>
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Town of Portola Valley, California (Town), as of and for the year ended June 30, 2019, and have issued our report thereon dated **DATE**.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

We have also issued a separate Memorandum on Internal Control dated **DATE** which is an integral part of our audit and should be read in conjunction with this report.

***Purpose of this Report***

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

Pleasant Hill, California

**DATE**