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.

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.

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 2019-20.

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 2019-20.

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	$94,438
Additions	90,419
Payments	(67,407)
Ending balance	$117,450

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.

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.

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	$17,811,772
Restricted cash and investments	1,199,132
Cash and investments of the Town	19,010,904
Cash and investments in Agency Funds	703,531
Total cash and investments	$19,714,435

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, 2020, is provided by the following table:

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	$12,298,234	$12,298,234
Money Market Mutual Funds	4,721,146	4,721,146
Total Investments	$17,019,380	17,019,380
Cash in Bank		2,693,555
Cash on Hand		1,500
Total Cash		2,695,055
Total cash and investments		$19,714,435

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, Untied States Treasury Notes and Bills, and corporations. At June 30, 2020, these investments matured in an average of 191 days.

Money market mutual funds are available for withdrawal on demand and at June 30, 2020, 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, 2020 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		$12,298,234	$12,298,234
Money Market Mutual Funds	$4,721,146		4,721,146
Total Investments	$4,721,146	$12,298,234	$17,019,380

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.

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:

Asset Class	Useful Lives
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.

NOTE 3 – CAPITAL ASSETS (Continued)

A. *Capital Assets*

Capital assets activities during the fiscal year ended June 30, 2020 was as follows:

	Balance June 30, 2019	Additions	Balance June 30, 2020
Governmental Activities			
Capital assets not being depreciated:			
Land	$6,690,959		$6,690,959
Construction in Progress	564,653		564,653
Total capital assets not being depreciated	7,255,612		7,255,612
Capital assets being depreciated:			
Infrastructure	10,769,254		10,769,254
Land improvements	3,070,430		3,070,430
Buildings and improvements	19,838,406		19,838,406
Equipment	462,688		462,688
Total capital assets being depreciated	34,140,778		34,140,778
Less accumulated depreciation for:			
Infrastructure	(3,757,497)	($458,800)	(4,216,297)
Land improvements	(1,146,901)	(83,183)	(1,230,084)
Buildings and improvements	(4,149,857)	(396,767)	(4,546,624)
Equipment	(308,663)	(28,406)	(337,069)
Total accumulated depreciation	(9,362,918)	(967,156)	(10,330,074)
Total depreciable assets, net	24,777,860	(967,156)	23,810,704
Capital assets, net	$32,033,472	($967,156)	$31,066,316

B. *Depreciation Allocation*

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

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

NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Transfers

With Council approval, resources may be transferred from one Town fund to another. For the year of June 30, 2020, the Town did not have any Interfund Transfers.

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, 2020 interfund balances were as follows:

Due From Other funds	Due To Other Funds	Total
General Fund	Non-Major Governmental Funds	$86,573

NOTE 5 – LOANS RECEIVABLE

The Town issued loans to Wayside II Road Maintenance District to maintain the private roads within the Wayside Road area of the Town. The District repays the Town on an annual basis. As of June 30, 2020, the remaining balance of the loans is $18,792.

NOTE 6 – NET POSITION AND FUND BALANCES

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.

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.

NOTE 6 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the Town's fund balances, as of June 30, 2020, 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:						
Nonspendables:						
Loans receivable	$18,792					$18,792
Total nonspendable	**18,792**					**18,792**
Restricted for:						
Open space acquisition		$6,871,193				6,871,193
Public safety COPS					$125,547	125,547
Library fund					163,857	163,857
Park in-lieu					35,025	35,025
Grants					69,799	69,799
Inclusionary in-lieu			$3,728,930			3,728,930
Measure A				$386,608		386,608
Total restricted		**6,871,193**	**3,728,930**	**386,608**	**394,228**	**11,380,959**
Assigned to:						
Unfunded pension reserve	712,486					712,486
Equipment replacement	100,000					100,000
Capital replacement/repairs	1,400,000					1,400,000
OPEB	834,871					834,871
Legal contingency	100,000					100,000
Total assigned	**3,147,357**					**3,147,357**
Unassigned	**2,659,021**				**(89,384)**	**2,569,637**
Total fund balances	**$5,825,170**	**$6,871,193**	**$3,728,930**	**$386,608**	**$304,844**	**$17,116,745**

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, 2020 is as follows:

Investment Type	AAm/AAA	Not Rated	Total
California Local Agency Investment Fund		$12,298,234	$12,298,234
Money Market Mutual Funds	$4,721,146		4,721,146
Total Investments	$4,721,146	$12,298,234	$17,019,380

D. Fund Balance Deficit

As of June 30, 2020, the Public Safety Special Revenue Fund and Measure M Special Revenue Fund had fund balance deficits of $6,478 and $82,906, respectively. The fund deficits are expected to be eliminated by future revenues.

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, 2020, are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
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%	6.750%
Required employer contribution rates	9.680%	6.985%

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 $71,743.

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, 2020, the Town's contributions to the Plan were as follows:

	Miscellaneous
Contributions - employer	$205,746

B. Net Pension Liability

As of June 30, 2020, the Town reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$836,271

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, 2019, 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, 2018 rolled forward to June 30, 2019 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 2019 was as follows:

	Miscellaneous
Proportion - June 30, 2018	0.01778%
Proportion - June 30, 2019	0.02088%
Change - Increase (Decrease)	0.00310%

NOTE 7 – PENSION PLAN (Continued)

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

For the year ended June 30, 2020, the Town recognized pension expense of $153,873. At June 30, 2020, 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	$205,746	
Differences between actual and expected experience	58,083	($4,500)
Changes of assumptions	39,877	(14,136)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(177,103)
Change in proportion	213,412	
Net differences between projected and actual earnings on plan investments		(14,621)
Total	$517,118	($210,360)

Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15%
Mortality	Derived using CalPERS' membership data for all funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance floor on purchasing power applies

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of projected mortality improvement using the 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, 2018 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.

NOTE 7 – PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability for the Plan was 7.15%. The projection of cash flows used to determine the discount rate for the 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, the Plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. 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.

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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

The table below reflects the expected real rate of return by asset class.

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	100%		

(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 Gloal Debt Securities.

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

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

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:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$1,887,779
Current Discount Rate	7.15%
Net Pension Liability	$836,271
1% Increase	8.15%
Net Pension Liability (Asset)	($31,675)

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

The $205,746 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, 2021. 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
2021	75,396
2022	22,147
2023	515
2024	2,954
Total	$101,012

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.

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

Benefits Provided

The following is a summary of Plan benefits by employee group as of June 30, 2020:

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, 2020:

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

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

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, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Actuarial Assumptions:	
Discount Rate	2.15%
Payroll Growth	1.80%
Mortality Rate	Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years
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	4.9% descending to 4.3% over 10 years

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

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

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, 2019	$1,119,863		$1,119,863
Changes Recognized for the Measurement Period:			
Service cost	120,877		120,877
Interest on the total OPEB liability	29,825		29,825
Changes of benefit terms			
Differences between expected and actual experience			
Economic gains or losses	(62,829)		(62,829)
Changes of assumptions	56,159		56,159
Contributions from the employer		$6,456	(6,456)
Benefit payments	(6,456)	(6,456)	
Net changes	137,576		137,576
Balance at June 30, 2020 (Measurement Date)	$1,257,439		$1,257,439

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% (1.15%)	Discount Rate (2.15%)	Discount Rate +1% (3.15%)
$1,508,934	$1,257,439	$1,058,742

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 4.9%, descending to 4.3% over 10 years:

Total OPEB Liability/(Asset)		
Trend rate -1%	Current Healthcare Cost Trend Rates	Trend rate +1%
$1,008,477	$1,257,439	$1,584,631

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, 2020, the Town contributed $81,161 or current year coverage.

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, 2020, the Town contributed $22,166 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, 2020 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.

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.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. It is at least reasonably possible that this matter will negatively impact the Town. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time.