

**TOWN OF PORTOLA VALLEY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2020**

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TOWN OF PORTOLA VALLEY
Basic Financial Statements
For the Year Ended June 30, 2020
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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, 2020, 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, 2020, 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 October 19, 2022 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.

Maze & Associates

Pleasant Hill, California
October 19, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This analysis of the Town of Portola Valley's (Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS:

- Including the deferred inflows and outflows of pension resources, the assets of the Town exceeded its liabilities as of June 30, 2020 by \$46.4 million. Total net position decreased by \$66,874. The decrease in net position is primarily due to capital depreciation (\$967,156) and increased obligations for pensions (\$166,166) and Other Post Employment Benefits-OPEB (\$137,576), largely offset by increases in Fund Balance (\$1,214,744).

The Town has taken active steps to reduce the GASB 75 Other Post-Employment Benefits (OPEB) liability by establishing a trust account through the California Employers' Benefit Trust CalPERS (CERBT), a Section 115 trust maintained by the California Public Employees' Retirement System (CalPERS). The Town Council approved and authorized the trust agreement on August 12, 2020.

- The total liabilities increased 3.1% to \$4.04 million, primarily due to increased obligations for pensions, OPEB and accrued compensated absences.

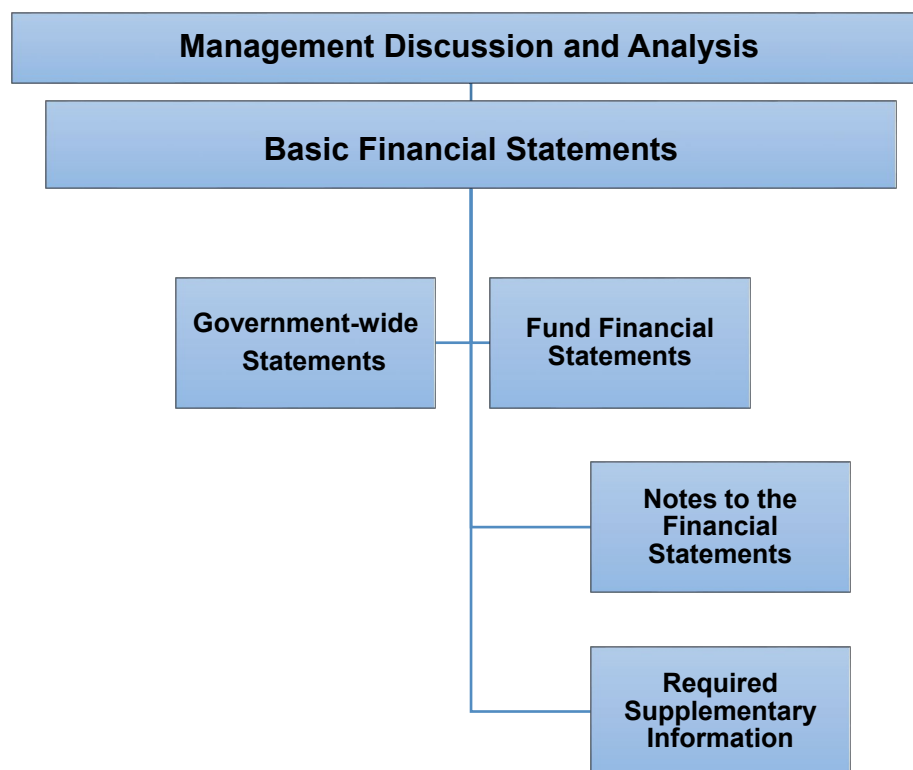
OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis serves as an introduction to the Town's basic financial statements that are comprised of three components:

1. Government-Wide Financial Statements - Provides both *short-term and long-term* information about the Town's overall financial status.
2. Fund Financial Statements - Focuses on *individual parts* of the Town's financial information – reporting these operations in *more detail* than the government-wide financial statements.
 - The *governmental funds statements* and the *agency funds statements* tell how basic services such as operations, administration, and restricted funds were financed in the short-term as well as what remains for future spending.
3. Notes to Basic Financial Statements – Provides explanation of the information contained in the basic financial statements.

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

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



Government-Wide Financial Statements:

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

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

Although the *Statement of Net Position* reports a total net position of \$46.4 million, the Town has restrictions over the use of these funds. The investment in land, buildings, and equipment (capital assets, net of related debt) is necessary for the successful operation of the Town. Governmental laws segregate funds and place restrictions on spending. This should be considered when reviewing the report.

The second of the government-wide financial statements is the *Statement of Activities*. This statement shows the result of operations that caused net position to change from the prior year to the amount reported on the *Statement of Net Position* as of June 30, 2020. This change in net position is important because it tells the financial statement user whether the financial position has improved or diminished for the Town. The causes of this change may be the result of many factors. To assess the Town's overall health, consideration should be given to additional non-financial factors such as building and land improvements, governmental mandates and staffing levels.

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

Fund Financial Statements:

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

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

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

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

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

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

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

Notes to Basic Financial Statements:

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

Required Supplementary Information:

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

Other Supplementary Information:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Statement of Net Position:

The Town's net position has remained stable as of June 30, 2020 compared to prior year, decreasing 0.1% from \$46.5 million to \$46.4 million. The following are major components of the Town's net position:

Town of Portola Valley
Condensed Statement of Net Position

	Fiscal Year Ended			
	<u>06/30/19</u>	<u>06/30/20</u>	<u>Amount</u>	<u>Percent</u>
Assets:				
Other Assets	18,058,195	19,069,120	1,010,925	5.6%
Capital Assets, Net	32,033,472	31,066,316	(967,156)	-3.0%
Total Assets	50,091,667	50,135,436	43,769	0.1%
Deferred Outflows	484,210	517,118	32,908	6.8%
Liabilities:				
Accounts Payable	2,036,316	1,832,497	(203,819)	-10.0%
Long-term Liabilities	1,884,406	2,211,160	326,754	17.3%
Total Liabilities	3,920,722	4,043,657	122,935	3.1%
Deferred Inflows	189,744	210,360	20,616	10.9%
Net Position:				
Invested in Capital Assets,	32,033,472	31,066,316	(967,156)	-3.0%
Restricted	10,507,986	11,311,160	803,174	7.6%
Unrestricted	3,923,953	4,021,061	97,108	2.5%
Total Net Position	46,465,411	46,398,537	(66,874)	-0.1%

The Town's net position of \$46.4 million consists of \$31.1 million net investment in capital assets, \$11.3 million in restricted net assets, and \$4.0 million in unrestricted assets. Restricted net assets are restricted by State law, municipal code and contractual obligation to be utilized for public works, safety and open space. Unrestricted assets are not restricted by law; however, \$3.1 million of these funds remain assigned by the Town for special programs.

The increase in Long-Term Liabilities is primarily due to increases of \$166,166 (or 24.8%) in pension liabilities and \$137,576 (or 12.3%) in OPEB liabilities. OPEB liabilities should decline as the Town begins to fund the CalPERS OPEB trust.

The Town uses capital assets to provide services to the Town's populace; consequently, these assets are not available for future spending.

Statement of Activities:

The Town's total overall revenues for FY 2020 decreased by \$801,775 (or 10.8%) from the prior year. The expenses increased by \$630,284 (or 10.4%), which included adjustments for capital depreciation of \$967,156 and adjustments to OPEB and pension liabilities totaling \$303,742. These are offset by an increase in Fund Balance of \$1,214,744. Taken together these adjustments result in a small decrease in the Town's Net Position of \$66,874 (or 0.1%).

Town of Portola Valley Condensed Statement of Activities

	Fiscal Year Ended		Change	
	<u>06/30/19</u>	<u>06/30/20</u>	<u>Amount</u>	<u>Percent</u>
Revenues:				
Program Revenues				
Charges for Services	1,120,052	784,651	(335,401)	-29.9%
Grants and Contributions	1,318,258	630,802	(687,456)	-52.1%
General Revenues				
Property Taxes	3,058,184	3,158,836	100,652	3.3%
Agency Revenues	302,720	449,377	146,657	48.4%
Franchise Fees	311,471	246,226	(65,245)	-20.9%
Utility Users Tax	951,600	939,261	(12,339)	-1.3%
Investment Earnings	357,834	407,168	49,334	13.8%
Miscellaneous	10,909	12,932	2,023	18.5%
Total Revenues	<u>7,431,028</u>	<u>6,629,253</u>	<u>(801,775)</u>	-10.8%
Expenses:				
General Government	3,313,111	3,841,246	528,135	15.9%
Parks and Recreation	324,723	283,571	(41,152)	-12.7%
Town Center Facilities	638,788	619,639	(19,149)	-3.0%
Public Safety	1,149,440	1,244,971	95,531	8.3%
Public Works	639,781	706,700	66,919	10.5%
Total Expenses	<u>6,065,843</u>	<u>6,696,127</u>	<u>630,284</u>	10.4%
Change in OPEB Liability	(295,992)	(137,576)	158,416	-53.5%
Change in Pension Liability	42,381	(166,166)	(208,547)	-492.1%
Change in Fund Balance	1,874,397	1,214,744	(659,653)	-35.2%
Change in Capital Assets	(235,020)	(967,156)	(732,136)	311.5%
Change in Other Assets	(20,581)	(10,720)	9,861	-47.9%
Net Position - Beginning	45,100,226	46,465,411	1,365,185	3.0%
Net Position - Ending	<u>46,465,411</u>	<u>46,398,537</u>	<u>(66,874)</u>	-0.1%

Other Observations for 2020:

The most significant variances in revenue occurred in Grants and Contributions, Agency Revenues, Charges for Services, Franchise Fees and Investment Earnings.

- Grants and Contributions decreased by 52.1% primarily due to a one-time contribution of \$588,646 to the Open Space Fund and various grants totaling \$65,500 in the previous fiscal year.
- Agency Revenues increased by 48.4% primarily due to the first allocation of Measure W Half-Cent Sales Tax proceeds of \$109,229 for road improvements.
- Charges for Services decreased by 29.9% primarily due to the Covid-19 lockdown, which resulted in lower revenues from most charges for services, including Town Planning Fees, Building Permits, Plan Check Fees, Inspection Fees, and Class Fees.
- Franchise Fees decreased by 20.9% as budgeted revenues from California Water Service Company of \$45,000 and Comcast of \$25,000 were not booked until FY 2020-21.
- Investment earnings increased by 13.8% due to the Town's investment in Schwab securities coupled with higher returns on funds invested in the Local Agency Investment Fund (LAIF).

The most significant variances in expenditures occurred in General Government, Parks and Recreation and Public Works.

- General Government increased by 15.9% primarily due to adjustments to pension and OPEB liabilities, negotiated salary increases, the promotion of a Maintenance Worker II to a Recreational Facilities Coordinator, and the addition of an Assistant Planner position.
- Parks and Recreation decreased by 12.7% due to the Covid-19 lockdown, which resulted in lower expenditures for Class Instructors and Parks & Field Maintenance.
- Public Works (which includes Capital Improvement Projects-CIP) increased by 10.5% due to the allocation of change in capital assets, which is annual depreciation expense net any new capital purchases or CIP projects completed during the fiscal year. There were capital purchases and CIP projects totaling \$732,136 in FY 2018-19 and none in FY 2019-20, resulting in a significant year-over-year change. Expenditures for Public Works and CIP actually decreased by \$559,680 in FY 2019-20, but those savings were more than offset by the annual depreciation expense.

FUND FINANCIAL STATEMENT ANALYSIS

As the Town completed the year, its governmental funds (General Fund, Open Space Restricted Fund, Inclusionary-in-Lieu Fund, Measure A Fund, and Other Governmental Funds) reported combined fund balances of \$17.2 million, an increase of \$1.2 million from last year's ending fund balances of \$16.0 million. The increase is attributable to revenues in excess of expenditures. Revenues for the year totaled \$6.6 million, while expenditures were \$5.4 million.

The following assigned fund balances, totaling \$3.1 million, can be used for their specific purposes within the General Fund; however, these funds can be reassigned at the Council's discretion. These assignments are consistent with prior years:

- | | |
|---|-----------|
| • Assigned for unfunded pension reserve | \$712,486 |
| • Assigned for OPEB | 834,871 |

- Assigned for emergency capital reserve 1,400,000
- Assigned for equipment replacement 100,000
- Assigned for legal contingency 100,000

The General Fund had unassigned fund balance of \$2.7 million at fiscal year-end. The remaining \$11.4 million in restricted funds can only be used for projects within the intended purpose of the funds.

Additional detail on specific fund balances can be found in the notes to the financial statements.

Fund Budgetary Highlights:

Overall, for FY 2019-20, Town revenues were under budget by \$724,491. Shortfalls were largely due to the Covid-19 pandemic lockdown which took effect March 16, 2020. Some of the more impacted revenue sources include Town Planning Fees of \$143,027, Building Permits of \$52,569, Plan Check Fees of \$43,758, Inspection Fees of \$36,002, Site Development Permits of \$10,127, Class Fees of \$50,112, and Sales and Use Tax of \$26,112. There were also items appropriated but not realized during FY 2019-20, most notably contributions from the Town Library of \$84,603 and Measure M Sales Tax Revenue of \$75,000. The Library Fund has a surplus and an agreement was reached with the Library to reimburse the Town for maintenance and janitorial services on a pay-as-go basis once the surplus is exhausted. Measure M is a reimbursement program based on completed road related eligible expenditures. The unrealized Measure M revenue was due to no completed CIP projects in FY 19-20.

Town expenditures were under budget by \$2,102,175. Salaries and Benefits savings were under budget by \$229,383 due to staff vacancies and lower than anticipated Employee Health Insurance costs. The primary reason for the budget savings was due to the Covid-19 pandemic lockdown as non-staff operating expenditures were under budget by \$563,272 and capital expenditures were under budget by \$1,199,548, as most major projects were deferred during the lockdown. Some of the significant budget savings that resulted from the lockdown include Miscellaneous Consultants of \$119,999, Engineering Services of \$30,068, Plan Check Services of \$44,488, Tree Trimming and Mowing of \$60,908, Landscape Supplies and Services of \$40,533, Parks and Fields Maintenance of \$32,185, Instructors and Class Refunds of \$18,722, and Town Committee expenditures of \$27,926.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

As of the end of fiscal year 2020, the Town had invested \$31.1 million (net of depreciation) in a broad range of capital assets including buildings, land and technology upgrades. The Town's gross capital assets decreased by \$967,156 during the fiscal year, which was entirely due to depreciation expense for the year. Depreciation expense is allocated to the fund and category in which the capital asset has been recorded. No new assets came online during FY 2019-20.

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

Town of Portola Valley
Condensed Statement of Capital Assets

	Fiscal Year Ended		Change	
	<u>06/30/19</u>	<u>06/30/20</u>	<u>Amount</u>	<u>Percent</u>
Land	6,690,959	6,690,959	0	0.0%
Construction in Progress	564,653	564,653	0	0.0%
Infrastructure	10,769,254	10,769,254	0	0.0%
Land Improvements	3,070,430	3,070,430	0	0.0%
Buildings & Improvements	19,838,406	19,838,406	0	0.0%
Equipment	<u>462,688</u>	<u>462,688</u>	<u>0</u>	0.0%
 Total Capital Assets	 41,396,390	 41,396,390	 0	 0.0%
 Accumulated Depreciation	 <u>(9,362,918)</u>	 <u>(10,330,074)</u>	 <u>967,156</u>	 -10.3%
 Total Net Capital Assets	 <u>32,033,472</u>	 <u>31,066,316</u>	 <u>967,156</u>	 3.0%

Long-Term Debt:

The Town's long-term liabilities is made up of three components: Net Pension Liability of \$836,271, Net OPEB obligations of \$1,257,439, and compensated balances (unpaid vacation leave) of \$117,450. No new debt was incurred during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET:

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

In this fiscal year 2019-20, the COVID-19 pandemic crisis fundamentally altered how government interacts with its constituency and how its services are delivered. Some of these changes are frustrating and counter to how Portola Valley's staff and the residents we serve have traditionally enjoyed; other changes are positive and provide service more responsively. As we are still in the early stages of this pandemic, staff will continuously assess the longer-term financial impacts of COVID-19 as they relate to the Town.

The Town recognizes its contractual obligations to employees for vacation and benefits payable. As of June 30, 2020, the Town had accumulated obligations totaling \$117,450 for unpaid vacation leave. Funding for this liability has not occurred since it is not payable currently. The annual expected payout of vacation leave is reflected in the current operating budget of the General Fund. The Town also provides post-employment benefits other than pensions such as health insurance to their retirees, more commonly known as Other Post-Employment Benefits (OPEB). The Town's OPEB obligation increased from

\$1,119,863, to \$1,257,439, an increase of 12.3%. The increase was largely driven by the implementation of GASB 75, which includes sweeping disclosure changes and fundamental overhauls in the standards for reporting OPEB. Most impactful is the recognition of a liability for OPEB obligations, known as the net OPEB liability (NOL) to be fully recognized on the balance sheet with a corresponding OPEB expense recognized in the income statement. Under the former GASB 45, the unfunded accrued liability (UAAL) for OPEB was reported in the notes for the plan. There are some technical differences between UAAL and NOL, but the most significant impact of GASB 75 is the move from the note disclosures section of the financial statements to the balance sheet.

The Town entered into an agreement with CalPERS in December 2020 for OPEB trust services. Future obligations should decline as the Town begins to fund the CalPERS OPEB trust.

The Town is currently evaluating the impact of GASB 84, issued during January 2017. The pronouncement includes numerous changes for reporting fiduciary activities in governmental financial statements and is effective for fiscal years ending on or after December 31, 2019. Staff is currently evaluating the impact of this pronouncement. If applicable, changes will be reflected in the Fiscal Year 2021 financial statements.

The Town is also evaluating the impact of GASB 87, issued during June 2017. The pronouncement seeks to increase the usefulness of governments' financial statements by requiring the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision in the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this pronouncement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This pronouncement is effective for fiscal years beginning after December 15, 2019. Staff anticipates that the impact should be negligible given the Town's current lease agreements.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT:

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

TOWN OF PORTOLA VALLEY

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES
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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, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$17,811,772
Restricted cash (Note 2)	1,199,132
Accounts and interest receivable	39,424
Loans receivable (Note 5)	18,792
Capital assets, net (Note 3)	
Nondepreciable	7,255,612
Depreciable, net of accumulated depreciation	<u>23,810,704</u>
Total Assets	<u>50,135,436</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions (Note 7)	<u>517,118</u>
LIABILITIES	
Current liabilities:	
Accounts payable	628,907
Refundable customer deposits	1,203,590
Non-current liabilities:	
Accrued compensated absences (Note 1G)	117,450
Net Pension Liability (Note 7)	836,271
Net OPEB obligation (Note 8)	<u>1,257,439</u>
Total Liabilities	<u>4,043,657</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions (Note 7)	<u>210,360</u>
NET POSITION (Note 6)	
Net investment in capital assets	31,066,316
Restricted for:	
Special Revenue Projects	11,276,135
Capital Projects	35,025
Unrestricted	<u>4,021,061</u>
Total Net Position	<u><u>\$46,398,537</u></u>

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Operating Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$3,841,246	\$564,266		\$570	(\$3,276,410)
Parks and recreation	283,571	54,040			(229,531)
Town center facilities	619,639	166,345			(453,294)
Public safety	1,244,971		\$171,113		(1,073,858)
Public works	706,700		454,119	5,000	(247,581)
Total governmental activities	<u>\$6,696,127</u>	<u>\$784,651</u>	<u>\$625,232</u>	<u>\$5,570</u>	<u>(5,280,674)</u>
General Revenues:					
Property tax revenues.....					3,158,836
Other governmental agencies revenues.....					449,377
Franchise fees.....					246,226
Utility user tax.....					939,261
Investment earnings.....					407,168
Miscellaneous revenue.....					12,932
Total general revenues					<u>5,213,800</u>
Change in net position					(66,874)
Net Position, beginning of year					<u>46,465,411</u>
Net Position, end of year					<u>\$46,398,537</u>

See accompanying notes to financial statements

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TOWN OF PORTOLA VALLEY

FUND FINANCIAL STATEMENTS

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

The funds described below were determined to be Major Funds by the Town in fiscal year 2020. 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, 2020

	General	Open Space Restricted	Inclusionary In-Lieu	Measure A	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 2)	\$6,278,595	\$6,871,064	\$3,728,845	\$386,602	\$546,666	\$17,811,772
Restricted cash - customer deposits (Note 2)	1,199,132					1,199,132
Accounts and interest receivable	38,903	129	85	6	301	39,424
Due from other funds (Note 4)	86,573					86,573
Loans receivable (Note 5)	18,792					18,792
Total Assets	\$7,621,995	\$6,871,193	\$3,728,930	\$386,608	\$546,967	\$19,155,693
LIABILITIES						
Accounts payable	\$593,235				\$35,672	\$628,907
Refundable deposits	1,203,590					1,203,590
Due to other funds (Note 4)					86,573	86,573
Total Liabilities	1,796,825				122,245	1,919,070
FUND BALANCES (Note 6)						
Nonspendable	18,792					18,792
Restricted		\$6,871,193	\$3,728,930	\$386,608	514,106	11,500,837
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	424,722	17,236,623
Total Liabilities and Fund Balances	\$7,621,995	\$6,871,193	\$3,728,930	\$386,608	\$546,967	\$19,155,693

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
RECONCILIATION OF THE
GOVERNMENTAL FUNDS BALANCE SHEET
TO THE
STATEMENT OF NET POSITION
JUNE 30, 2020

Fund Balances - Total Governmental Funds	\$17,236,623
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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	(10,330,074)	31,066,316

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	517,118	
Deferred inflows of resources - pension	(210,360)	

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

Collective net pension liability	(836,271)	
Net OPEB Liability	(1,257,439)	
Compensated absences	(117,450)	

Net Position of Governmental Activities	\$46,398,537
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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, 2020

	General Fund	Open Space Restricted	Inclusionary In-Lieu	Measure A	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes						
Property taxes	\$3,158,836					\$3,158,836
Sales tax	191,109			\$309,938	\$124,394	625,441
Utility users tax	658,037	\$281,224				939,261
Gas tax					181,544	181,544
Business license tax and other taxes	99,870					99,870
Total taxes	4,107,852	281,224		309,938	305,938	5,004,952
Agency revenues	11,806					11,806
Grants					160,948	160,948
Contributions		570				570
Franchise fees	246,226					246,226
Licenses and permits	503,103					503,103
Service charges and fees	74,051					74,051
Parks and recreation	213,928					213,928
Investment and other revenues	155,229	158,324	\$87,879	5,700	6,537	413,669
Total Revenues	5,312,195	440,118	87,879	315,638	473,423	6,629,253
EXPENDITURES						
General government	3,520,942					3,520,942
Parks and recreation	221,427					221,427
Town center facilities	127,632				59,386	187,018
Public safety	1,076,917				160,305	1,237,222
Public works	13,723				102,416	116,139
Capital improvement program	131,761					131,761
Total Expenditures	5,092,402				322,107	5,414,509
NET CHANGE IN FUND BALANCES	219,793	440,118	87,879	315,638	151,316	1,214,744
FUND BALANCES, BEGINNING OF YEAR	5,605,377	6,431,075	3,641,051	70,970	273,406	16,021,879
FUND BALANCES, END OF YEAR	\$5,825,170	\$6,871,193	\$3,728,930	\$386,608	\$424,722	\$17,236,623

See accompanying notes to financial statements

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, 2020

Net Change in Fund Balances - Total Governmental Funds	\$1,214,744
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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.

Depreciation expense	<u>(\$967,156)</u>	(967,156)
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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		(153,874)
OPEB expense		(137,576)
Net change in compensated absences		(23,012)

Change in Net Position of Governmental Activities	<u><u>(\$66,874)</u></u>
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See accompanying notes to financial statements

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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, 2020

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 2)	\$703,531
Accounts and interest receivable	<u>11</u>
Total Assets	<u><u>\$703,542</u></u>
LIABILITIES	
Deposits and accrued liabilities	<u>\$703,542</u>
Total Liabilities	<u><u>\$703,542</u></u>

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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, 2020

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, 2020

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 recognize 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.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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	<u>(67,407)</u>
Ending balance	<u><u>\$117,450</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.

<p style="text-align: center;">TOWN OF PORTOLA VALLEY NOTES TO BASIC FINANCIAL STATEMENTS For the Year Ended June 30, 2020</p>

<p>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</p>

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, 2020

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	<u>\$19,714,435</u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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	<u>\$17,019,380</u>	17,019,380
Cash in Bank		2,693,555
Cash on Hand		1,500
Total Cash		<u>2,695,055</u>
Total cash and investments		<u>\$19,714,435</u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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, 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	<u>\$4,721,146</u>	<u>\$12,298,234</u>	<u>\$17,019,380</u>

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, 2020

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.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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	<u>7,255,612</u>		<u>7,255,612</u>
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	<u>34,140,778</u>		<u>34,140,778</u>
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	<u>(9,362,918)</u>	<u>(967,156)</u>	<u>(10,330,074)</u>
Total depreciable assets, net	<u>24,777,860</u>	<u>(967,156)</u>	<u>23,810,704</u>
Capital assets, net	<u>\$32,033,472</u>	<u>(\$967,156)</u>	<u>\$31,066,316</u>

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	<u>\$967,156</u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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:

<u>Due From Other funds</u>	<u>Due To Other Funds</u>	<u>Total</u>
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.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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, 2020

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.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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%

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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:

	<u>Miscellaneous</u>
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:

	<u>Proportionate Share of Net Pension Liability</u>
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:

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

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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	<u>\$517,118</u>	<u>(\$210,360)</u>

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.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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 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, 2020

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	\$1,887,779
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	<u><u>\$101,012</u></u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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	<u>18</u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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 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
Pre-Retirement Turnover	4.9% descending to 4.3% over 10 years
Healthcare Trend Rates	

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

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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%	Discount Rate	Discount Rate +1%
(1.15%)	(2.15%)	(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 rate +1%
	Trend Rates	
\$1,008,477	\$1,257,439	\$1,584,631

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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.