

CITY OF MONTE SERENO

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

CITY OF MONTE SERENO

**Financial Statements
June 30, 2008**

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INDEPENDENT AUDITORS' REPORT

To the City Manager and
Members of the City Council
City of Monte Sereno, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno, California, as of and for the year ended June 30, 2008, which collectively comprise the City of Monte Sereno's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Monte Sereno's management. 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 Standard* 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 10, 2009, on our consideration of the City of Monte Sereno 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The non-major governmental fund's balance sheet and statement of revenues, expenditures, and changes in fund balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California
February 10, 2009

CITY OF MONTE SERENO

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

INTRODUCTION

The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2008 for the City of Monte Sereno. The Management Discussion and Analysis is to be read in conjunction with the annual Transmittal Letter and the Basic Financial Statements.

FISCAL YEAR 2007-2008 FINANCIAL HIGHLIGHTS

- The City's total net assets were \$6,809,532.
- Total City revenues were \$3,074,928, while total expenses were \$2,761,939.
- The City's Unrestricted Net Assets are \$5,972,448 equal to about two (2) years of operating expenses.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in five parts:

1. Introductory section, which includes the transmittal letter and general information.
2. Management's Discussion and Analysis.
3. The Basic Financial Statements, which include the government-wide and fund financial statements, along with the notes to the financial statements.
4. Required supplementary information.
5. Combining statements for non-major governmental funds and fiduciary funds.

The Basic Financial Statements

The Basic Financial Statements are comprised of City-Wide Financial Statements and Fund Financial Statements. These two sets of financial statements provide the reader two different viewpoints of the City's financial activities and financial position.

The Government-Wide Financial Statements provide a long-term view of the City's activities as a whole and comprise the Statement of Net Assets and Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on a full accrual basis, similar to the "basis" used by corporations. The Statement of Activities provides information about the City's revenues and expenses, also on a full accrual basis, with the emphasis on measuring net revenues and/or expenses for each of the City's activities. The Statement of Activities explains in detail the change in Net Assets for the fiscal year.

All of the City's activities are required to be grouped into government activities and business-type activities. The entire amount in the Statement of Net Assets and Statement of Activities is also required to be separated into governmental activities or business-type activities in order to provide a summary of these two activities as a whole. In the case of Monte Sereno, there are no business-type activities as of June 30, 2008.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. The Fund Financial Statements measure only current revenues and expenditures and fund balance; they exclude capital assets, long-term debt, and other long-term amounts. Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these funds. Major funds are explained later in Management Discussion and Analysis.

The Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

Governmental activities – All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, transportation, and cultural and leisure. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

Business-type activities – Enterprise activities are reported here; they would include activities such as water, sewer, and utilities. Unlike governmental services, these services are supported by charges paid by users based on the amount of services used. The City of Monte Sereno does not have any business-type activities at this time.

Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the fiscal year, and may change from year to year as a result of changes in the pattern of the City's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Internal Service Funds – The City has no internal service funds at June 30, 2008.

Enterprise Funds – The City has no enterprise funds at June 30, 2008.

Proprietary Funds – The City has no proprietary funds at June 30, 2008.

Fiduciary Funds – These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains one such fund:

- Surety Trust Fund – Acts as a trustee for funds deposited by homeowners to assure any repairs and improvements needed to City streets as a result of construction.

Notes to the Financial Statement:

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the fund financial statements.

Required Supplementary Information

The Required Supplementary Information follows the basic financial statements and includes a budgetary comparison schedule that includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements, where applicable.

Combining and Individual Fund Statements and Schedules

Combining and individual fund statements and schedules provide information for non-major governmental funds.

Government-Wide Analysis

Net assets may serve over time as a useful indicator of a government's financial position. The City's largest assets include investments and capital assets. Next fiscal year's (2008/2009) analysis will include City infrastructure as a noted asset.

\$424,889 or 6% of the City's net assets are capital assets (e.g., land, buildings, general government infrastructure, equipment, etc.).

\$5,972,448 or 88% of the City's net assets are unrestricted and may be used to fulfill ongoing obligations to the City residents and creditors.

\$412,195 or 6% of the City's net assets are subject to external restriction on how they may be used. These restricted assets are used for highway and street repair and public safety improvements.

Statement of Net Assets
Table 1

	Governmental Activities	
	2008	2007
ASSETS		
Cash and investments	\$ 6,429,727	\$ 6,029,411
Receivables:		
Interest	44,940	10,690
Other	45,986	123,463
Capital assets, net of accumulated depreciation	424,889	420,438
Total Assets	<u>6,945,542</u>	<u>6,584,002</u>
LIABILITIES		
Accounts payable	96,527	52,015
Compensated absences payable	39,483	35,444
Total Liabilities	<u>136,010</u>	<u>87,459</u>
NET ASSETS		
Invested in capital assets, net of related debt	424,889	420,438
Restricted for:		
Highways and streets	411,702	384,846
Public safety	493	93
Unrestricted	5,972,448	5,691,166
Total Net Assets	<u>\$ 6,809,532</u>	<u>\$ 6,496,543</u>

Statement of Activities and Changes in Net Assets
Table 2

	Governmental Activities	
	2008	2007
REVENUES		
Program revenues:		
Charge of services	\$ 778,159	\$ 778,559
Operating contributions and grants	72,960	100,522
General revenues:		
Property taxes	1,062,032	1,010,459
Other taxes	321,208	277,500
Other	840,569	487,588
Total revenues	3,074,928	2,654,628
Expenses:		
General government	1,795,900	1,503,185
Public safety	481,584	436,904
Public works	457,247	66,649
Community development	18,580	14,862
Facilities	8,628	9,051
Total expenses	2,761,939	2,030,651
Increase in net assets	312,989	623,977
Net assets beginning of year	6,496,543	5,872,566
Net assets end of year	\$ 6,809,532	\$ 6,496,543

Major Funds

General Fund

General Fund Revenues - General governmental revenues for the year ended June 30, 2008, increased by \$64,689 or 3% over the prior fiscal year.

- Property taxes increased 5% over the prior fiscal year.
- Franchise fees increased 23% over the prior fiscal year.
- Licenses and permits stayed virtually the same as the prior fiscal year.

General Fund Expenditures – General governmental expenditures for the year ended June 30, 2008 increased by 20% compared to the prior fiscal year.

For a year-to-year comparison of general fund expenditures, please see the annual budget document.

Law Enforcement Fund

Law Enforcement Fund Revenues - Law Enforcement Fund revenues for the year ended June 30, 2008, stayed virtually the same as the prior year.

Law Enforcement Fund Expenditures - Law Enforcement Fund expenditures for the year ended June 30, 2008, increased by 8%.

Traffic Safety Fund

Traffic Safety Fund Revenues – Traffic Safety Fund revenues for the year ended June 30, 2008 increased by 2071% compared to the prior fiscal year.

Traffic Safety Fund Expenditures – Traffic Safety Fund Expenditures for the year ended June 30, 2008 increased by 172%.

Gas Tax Fund

Gas Tax Fund Revenue – Gas Tax Fund revenues for the year ended June 30, 2008 decreased by 26% compared to the prior fiscal year.

Gas Tax Expenditures – Gas Tax expenditures for the year ended June 30, 2008 increased by 598%.

General Fund Budgetary Highlights

A comparison of the final budget to actual revenues and expenditures for the General Fund is presented in the required supplementary information section of this report.

Actual revenues were higher than the budgeted amounts by \$232,293. The single largest variance was in the area of property taxes that accounted for a \$125,899 excess over the estimate. This is attributable to the City receiving the full amount of the property tax in exchange for the VLF backfill and the passage of Assembly Bill 117, which restored the Tax Equity Allocation (TEA) to the full share. Previously it was distributed to the City at only 55%. Interest earning on the City's money market and reserve fund accounts also exceeded the budget estimates.

Total expenditures exceeded estimates by \$267,480. This excess is attributable largely to the pass through of the COPS grant money paid to the Los Gatos \ Monte Sereno Police Department.

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, as of June 30, 2008, amounts to \$424,889. This figure does not include City infrastructure such as roads and bridges. These figures will be added to next fiscal year's (2008/2009) analyses for comparison purposes. There were no significant additions to capital assets in the current fiscal year.

Additional information on capital assets can be found in footnote #5 to these financial statements.

Long - Term Liabilities

The City's long-term debt liabilities consist solely of compensated absences in the amount of \$39,483.

Economic Factors

Over the last several months the economic market has taken a dramatic downturn. City staff continues to be cautious of the difficult times ahead. As a result of this, building and interest revenues are expected to decline in the upcoming fiscal year.

Economic factors have also dramatically affected the State's budget and recovery is predicted to take several years. The State continues to aggressively seize or suspend cities' revenues. Therefore, cities may have to absorb State budget cuts in the upcoming years. However, Proposition 1A requires the State to "pay back with interest" any amount borrowed from cities within 3 years and limits the State from enacting such a suspension not more than twice in any 10-year period and may only do so if any previous borrowing under this provision has been repaid.

Major initiatives for the fiscal year 2008-2009 must take into consideration the impact of those events highlighted above. The initiatives include:

- Maintain preparedness for economic downturns and sustain City operations by closely monitoring current revenues and expenditures.
- Continue to maintain General Fund balance in the amount of at least \$5.9 million.
- Preserve the commitment of capital improvements reserves for projects related to public safety, infrastructure, and facilities.
- Prioritize City services that can be rendered within the parameters of the current revenue climate.
- Continue to pursue full cost recovery for services provided.

REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the City of Monte Sereno's finances for all of Monte Sereno's residents, taxpayers, and customers. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Monte Sereno, 18041 Saratoga-Los Gatos Road, Monte Sereno, California 95030.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MONTE SERENO
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 6,429,727
Receivables:	
Interest	44,940
Other	45,986
Capital assets, net of accumulated depreciation	424,889
Total Assets	<u>6,945,542</u>
LIABILITIES	
Accounts payable	96,527
Compensated absences payable (long term)	39,483
Total Liabilities	<u>136,010</u>
NET ASSETS	
Invested in capital assets, net of related debt	424,889
Restricted for:	
Highways and streets	411,702
Public safety	493
Unrestricted	5,972,448
Total Net Assets	<u>\$ 6,809,532</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTE SERENO

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

	Expenses	Program Revenues		Capital Contributions and Grants	Net Revenue (Expense) and Change in Net Assets
		Charges for Services	Operating Contributions and Grants		
Governmental Activities:					
General government	\$ 1,795,900	\$ 79,854	\$ -	\$ -	\$ (1,716,046)
Public safety	481,584	186,774	-	-	(294,810)
Public works	457,247	-	72,960	-	(384,287)
Community development	18,580	511,531	-	-	492,951
Facilities	8,628	-	-	-	(8,628)
Total Primary Government	\$ 2,761,939	\$ 778,159	\$ 72,960	\$ -	(1,910,820)
General Revenues:					
Taxes:					
					1,062,032
					15,918
					233,501
					56,584
					15,205
					239,153
					601,416
					<u>2,223,809</u>
					312,989
					<u>6,496,543</u>
					<u>\$ 6,809,532</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF MONTE SERENO

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008**

	General	Law Enforcement Fund	Traffic Safety Fund	Gas Tax Fund	Non-Major Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 5,921,855	\$ 493	\$ 14,514	\$ 394,550	\$ 98,315	\$ 6,429,727
Receivables:						
Interest	42,676	-	-	2,264	-	44,940
Other	19,824	-	-	23,162	3,000	45,986
Total Assets	\$ 5,984,355	\$ 493	\$ 14,514	\$ 419,976	\$ 101,315	\$ 6,520,653
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 88,253	\$ -	\$ -	8,274	\$ -	\$ 96,527
FUND BALANCES						
Reserved	-	493	-	411,702	-	412,195
Unreserved/undesignated	5,896,102	-	14,514	-	101,315	6,011,931
Total Fund Balances	5,896,102	493	14,514	411,702	101,315	6,424,126
Total Liabilities and Fund Balances	\$ 5,984,355	\$ 493	\$ 14,514	\$ 419,976	\$ 101,315	\$ 6,520,653

The accompanying notes are an integral part of these financial statements.

CITY OF MONTE SERENO

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Fund Balances of Governmental Funds	\$ 6,424,126
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets of governmental activities are not financial resources and therefore are not reported in the governmental funds	424,889
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds	<u>(39,483)</u>
Net Assets of Governmental Activities	<u>\$ 6,809,532</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MONTE SERENO

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	General	Law Enforcement Fund	Traffic Safety Fund	Gas Tax Fund	Non-Major Governmental Funds	Total
VENUES						
roperty and special assessment taxes	\$ 1,058,899	\$ 181,320	\$ -	\$ -	\$ 3,133	\$ 1,243,352
ales tax	15,918	-	-	-	-	15,918
as tax	-	-	-	68,475	-	68,475
ranchise fee	183,767	-	-	13,734	36,000	233,501
real property transfer tax	56,584	-	-	-	-	56,584
licenses and permits	591,385	-	-	-	-	591,385
ines and penalties	-	-	5,454	-	-	5,454
vestment earnings	239,153	-	-	-	-	239,153
ther agencies	23,725	-	-	-	-	23,725
urrent service charges	-	-	-	-	4,485	4,485
ther revenue	179,022	-	400,000	-	13,874	592,896
Total Revenues	2,348,453	181,320	405,454	82,209	57,492	3,074,928
PENDITURES						
urrent:						
General government	1,758,518	-	-	1,694	36,100	1,796,312
Public safety	39,256	416,920	25,408	-	-	481,584
Public works	-	-	-	453,659	3,588	457,247
Community development	18,580	-	-	-	-	18,580
apital outlay	-	-	-	-	8,628	8,628
Total Expenditures	1,816,354	416,920	25,408	455,353	48,316	2,762,351
Excess (Deficiency) of Revenues Over Expenditures	532,099	(235,600)	380,046	(373,144)	9,176	312,577
OTHER FINANCING SOURCES (USES)						
ransfers in	-	236,000	-	400,000	-	636,000
ransfers out	(236,000)	-	(400,000)	-	-	(636,000)
Total Other Financing Sources (Uses)	(236,000)	236,000	(400,000)	400,000	-	-
Net Change in Fund Balances	296,099	400	(19,954)	26,856	9,176	312,577
id Balances, Beginning of Year	5,600,003	93	34,468	384,846	92,139	6,111,549
id Balances, End of Year	\$ 5,896,102	\$ 493	\$ 14,514	\$ 411,702	\$ 101,315	\$ 6,424,126

The accompanying notes are an integral part of these financial statements.

CITY OF MONTE SERENO

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ 312,577

Amounts reported for governmental activities in the Statement of Activities differ from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures, but in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense or is allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	18,665
Depreciation expense	(14,214)

Compensated absences expense reported in the Statement of Activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.

(4,039)

Change in Net Assets of Governmental Activities

\$ 312,989

The accompanying notes are an integral part of these financial statements.

CITY OF MONTE SERENO

**STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

	<u>Performance Surety Fund</u>
ASSETS	
Restricted cash and investments	<u>\$ 27,116</u>
LIABILITIES	
Deposits held for others	<u> 27,116</u>
TOTAL NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 1 – GENERAL

The City of Monte Sereno (the City) was incorporated in 1957, under the provisions of the State of California. The City operates under a Council-Manager form of government and provides the following services: streets, sanitation, public improvement, planning and zoning, and general administration.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

B. Basis of Accounting/Measurement Focus

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities (including changes in net assets). These statements present summaries of Governmental Activities for the City. Fiduciary-type activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and infrastructure, as well as long-term debt, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of program revenues for the City are reported in three categories: 1) charges for services, 2) operating contributions and grants, and 3) capital contributions and grants. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function.

Contributions and grants include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. Internal balances in the Government-Wide Financial Statements have been eliminated.

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

In order to ensure the proper identification of individual revenue sources and expenditures made from those revenues, the accounts of the City are organized on the basis of individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. The City's resources are accounted for in these individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

Governmental Funds

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and aggregated non-major funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The City has presented all major funds that meet the qualifications of GASB Statement No. 34.

All governmental funds are accounted for on a "spending" or financial flow measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are generally included on the balance sheets. The reported fund balance is the net current assets, which is considered only to be a measure of available spendable resources. Governmental fund operating statements present a summary of sources and uses of available spendable resources during a period by presenting increases and decreases in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. Those revenues susceptible to accrual are property taxes, sales taxes, transient occupancy taxes, utility user taxes, property transfer taxes, interest revenues, and charges for services. Fines, licenses, use of property, and permit revenues are not susceptible to accrual because they generally are not measurable until received in cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term obligations which is recognized when due. Because of their current financial resources focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund expenditures or fund liabilities.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The Law Enforcement Fund accounts for all financial activity related to the City's Law Enforcement Services.

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Traffic Safety Fund accounts for moneys received from fines and forfeitures under the Vehicle Code of the State of California and uses the proceeds for maintenance, improvement or construction of bridges, culverts and streets.

Gas Tax Fund accounts for moneys received from the State from the gas tax and uses them for major street construction.

Fiduciary Funds

Fiduciary Fund Financial Statements include a Statement of Net Assets. The fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and employs accounting principles similar to proprietary funds. Since these assets are being held for the benefit of a third party, these funds are not incorporated into the government-wide statements.

The City reports the following fiduciary fund:

The Performance Surety Fund.

C. Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budget/actual comparisons in this report use the GAAP basis. Budgetary comparison schedules are presented for the General Fund, Law Enforcement Fund, Traffic Safety Fund and Gas Tax Fund. The budgetary comparison schedules present both the original adopted budget and the final budget with all amendments.

D. Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 Years
Vehicles	4-20 Years
Furniture, fixtures, and equipment	5-25 Years

E. Interfund Transactions

With Council approval, resources may be transferred from one City fund to another. Transfers (1) are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Property Taxes

The County of Santa Clara assesses all properties; and it bills, collects, and distributes property taxes and special assessments as follows:

	<u>Secured/Unsecured</u>
Valuation dates	July 1
Lien/levy dates	November 1
Due dates	50% on November 1 and February 1
Delinquent as of	December 10 and April 10

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenue is recognized in accordance with applicable GASB pronouncements, that is in the fiscal year for which the taxes have been levied, provided they become available. Available means (a) due, or (b) past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period. The County of Santa Clara remits the entire amount of the tax levy to the City (net of County administrative fees), and handles all delinquencies, retaining any interest and penalties.

G. Compensated Absences

Compensated absences include vacation pay and compensated time off. The City recognizes the liability for its compensated absences at year-end.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers cash and cash equivalents as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Because the only investment held by the funds is the Local Agency Investment Fund (LAIF), which meets the definition of a cash equivalent, the entire pooled balance is reported as “cash and investments.”

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 3 – CASH AND INVESTMENTS

The City's dependence on property tax receipts requires it to maintain significant cash reserves to finance operations during certain portions of the year. The City pools cash from all sources so that it can safely invest at maximum yields, while individual funds can make expenditures at any time. All investments are carried at fair value.

Summary of Deposits and Investments

Cash and cash equivalents as of June 30, 2008, consist of the following:

Cash on hand	\$	120
Cash with financial institutions		230,786
Investments		<u>6,225,937</u>
Total Deposits and Investments	\$	<u><u>6,456,843</u></u>

Cash and Investments

Cash and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	\$	6,429,727
Fiduciary funds:		
Cash and investments		<u>27,116</u>
Total Cash and Investments	\$	<u><u>6,456,843</u></u>

Policies and Practices

The City is authorized under California Government Code and the City's investment policy to make direct investments in U.S. Treasury instruments and securities of the U.S. Government, the Local Agency Investment Fund (LAIF), and federally insured deposits in commercial banks and savings and loan associations in the local area.

The City's investments were in compliance with the above provisions as of and for the year ended June 30, 2008.

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 – CASH AND INVESTMENTS (Continued)

General Authorizations

The table below identifies the investment types that are authorized for the City of Monte Sereno by the California Government Code and are further limited by the City’s investment policy. Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Federally insured deposits in commercial banks and savings and loan associations in the local area.	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk by purchasing only short-term investments as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2008, the City had the following investments. All investments are in the State’s investment pool.

Investment Type	Fair Value	Maturity Date
State Investment Pool	\$ 6,225,627	212 days

Credit Risk

Credit risk is the risk that an issuer of an investment 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. The state investment pool is not rated.

Concentration of Credit Risk

The City’s investment policy contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code.

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 – CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

This is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2008, the City's bank balance of \$295,756, with a reported balance of \$230,786, is either insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Neither the California Government Code nor the City's investment policy contains legal or policy requirements that would limit the exposure to custodial risk.

Investment in the State Investment Pool

The City is a voluntary participant in the LAIF that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in the pool is reported in the accompanying financial statement at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, and is recorded on the amortized cost basis.

NOTE 4 – INTERFUND TRANSFERS

With Council approval, resources may be transferred from one City fund to another. Transfers (1) are used to move revenues from the fund that statute or budget requires to be collected to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

	Transfer In	Transfer Out
General Fund	\$ -	\$ 236,000
Special Revenue Funds:		
Law Enforcement	236,000	-
Traffic Safety	-	400,000
Gas Tax	400,000	-
Total	<u>\$ 636,000</u>	<u>\$ 636,000</u>

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 – CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets, in the Government-Wide Statement of Net Assets. The City elected to apply infrastructure reporting on a proactive basis beginning July 1, 2003 and to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reportings, whereby depreciation expense and accumulated depreciation have been recorded. The following table presents the capital assets activity for the year ended June 30, 2008.

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 119,888	\$ -	\$ -	\$ 119,888
Total Capital Assets Not Being Depreciated	119,888	-	-	119,888
Capital Assets, Being Depreciated:				
Buildings and improvements	409,663	-	-	409,663
Computer equipment	60,800	13,347	(25,324)	48,823
Office equipment	18,835	5,318	-	24,153
Total Capital Assets Being Depreciated	489,298	18,665	(25,324)	482,639
Less Accumulated Depreciation For:				
Buildings and improvements	125,082	8,193	-	133,275
Computer equipment	55,167	5,175	(25,324)	35,018
Office equipment	8,499	846	-	9,345
Total Accumulated Depreciation	188,748	14,214	(25,324)	177,638
Total Capital Assets, Being Depreciated, Net	300,550	4,451	-	305,001
Governmental Activities Capital Assets, Net	\$ 420,438	\$ 4,451	\$ -	\$ 424,889

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

General government	\$ 14,214
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CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 – PENSION PLAN

A. PERS Plan Description

Plan Description. The City of Monte Sereno’s defined benefit pension plan (the Miscellaneous Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions, as well as other requirements, are established by State statutes within the Public Employees’ Retirement Law. The City of Monte Sereno selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance or resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy. Active plan members in the Miscellaneous Plan are required to contribute 7.0% of their annual covered salary that is paid by the City on the employees’ behalf. The City of Monte Sereno is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-2008 was 13.147% for miscellaneous employees. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost. For fiscal year 2007-2008, the City of Monte Sereno’s annual pension cost was \$123,165 and was equal to the City’s required and actual contributions. The required contribution for fiscal year 2007-2008 was determined as part of the June 30, 2005, actuarial valuation using the entry-age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members; and (c) 3% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of Miscellaneous Plan’s assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two-to five-year period depending on the size of investment gains and/or losses. The Miscellaneous Plan’s unfunded actuarially accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period ends June 30, 2022, for current services and June 30, 2015, for prior service.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$ 95,892	100%	\$ -
6/30/2007	101,634	100%	-
6/30/2008	123,165	100%	-

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

Funded Status of the Miscellaneous Plan

Valuation Date	Actuarial Value of Assets	Entry-Age Normal Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/2004	\$ 2,460,944,656	\$ 2,746,095,668	\$ 285,151,012	89.6%	\$ 743,691,970	38.3%
6/30/2005	2,588,713,000	2,891,460,651	302,747,651	89.5%	755,046,679	40.1%
6/30/2006	2,492,226,176	2,754,396,608	262,170,432	90.5%	699,897,835	37.5%

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The City is involved as a defendant in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no materially adverse effect on the financial position of the City.

The City may receive State and Federal funds for specific purposes that are subject to audit by the grantor agencies. Such audits could generate expenditure disallowances under the terms of the grants. It is believed that any required reimbursements would not be material.

The City participates in a Public Entity Risk Pool. See Note 9 for details.

NOTE 8 - NATURE AND PURPOSE OF REPORTED RESERVES AND DESIGNATIONS

Reserves are portions of the fund balance not appropriable for expenditures under the flow of current financial resources measurement focus or those portions of the fund balance/retained earnings legally segregated for specific future use. Designations are portions of the fund balance which have been identified by the City Council to reflect tentative plans or commitments of governmental resources.

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City has joined Bay Cities Joint Powers Insurance Authority (BCJPIA). BCJPIA is a public entity risk pool that is currently operating a common risk management agency with seventeen members. Annual premiums are paid by members and are adjusted retrospectively to cover costs. Excess premiums, if any, are returned to the members based on an equity allocation five years after the close of the program year. Member deductibles range from \$5,000 to \$500,000 with an Authority self-insured retention of \$1,000,000. The Authority has purchased excess insurance up to \$25,000,000 from a private company to provide coverage for losses and claims in excess of the Authority's stated limits.

Audited financial statements are available from the entity. Current condensed audited financial information was not available at the issuance of these financial statements.

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 10 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The City is a member of the West Valley Solid Waste Management Program (WVSWMP) for solid waste management and Silicon Valley Animal Control Authority (SVACAJPA) for animal control services. The City pays an annual premium to each entity for the services. The relationships between the City and the JPA's are such that they are not component units of the City for financial reporting purposes. Each entity is summarized below.

A. Description of WVSWMP

This program is a joint venture with the cities of Los Gatos, Campbell, Monte Sereno, and Saratoga to provide a coordinated Live Solid Waste Management Program to their respective cities in order to meet State and Federal requirements, as well as local objectives regarding solid waste. Each city has a representative on the Rate Review Committee of the Program, which makes recommendations regarding budgets, policies, and procedures to the city managers of the member cities. The city managers have final authority regarding policies, procedures, budgets, and expenditures of the entity. Costs of the programs are allocated based on population with Monte Sereno's portion of the budget equaling 2.9 percent for the year.

B. Description of SVACAJPA

This program is a joint venture with the cities of Campbell, Santa Clara, and Monte Sereno to own, manage, operate and maintain the Animal Control Services in the area in order to provide the residents with more efficient and economical animal control services. The Authority is administered by a Board of Directors consisting of three Directors, one each appointed by the Legislative Body of the cities of Santa Clara, Campbell and Monte Sereno. Costs of the program are allocated in proportions to the population of the member agency, the amount of licensed animals owned or kept by residents of the member agency, and the total number of days that an animal from each member agency is held at the current animal shelter facility. During the current year Monte Sereno's proportional share of those costs was 1.93% and is expected to be 1.97% for the fiscal year 2008-2009.

Audited financial statements are available from these entities. Current condensed financial information was not available at the issuance of these financial statements.

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS

In July 2004, CASB issued CASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the Government-Wide financial statements. This Statement establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial report of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

This Statement generally provides for prospective implementation – meaning employers set the beginning net OPEB obligation at zero as of the initial year. The City will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The City is in the process of determining the impact implementation of this Statement will have on the statement of net assets and statement of activities and changes in net assets.

In November 2006, GASB issued GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007. The City will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The City does not believe implementation of this statement will have a significant impact on the financial statements.

In June 2007, GASB issued GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The City will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2010, and does not believe it will have a significant impact on the financial statements.

In November 2007, GASB issued GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008. The City will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009, and does not believe it will have a significant impact on the financial statements.

In June 2008, GASB issued GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The City will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2010, and does not believe it will have a significant impact on the financial statements.

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 12 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City has exceeded expenditures over appropriations for the following funds:

General Fund

<u>Expenditure</u>	<u>Budgeted Amount Original/Final</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive/(Negative)</u>
Administration General Government	\$ 1,492,874	\$ 1,758,518	\$ (265,644)
Public Safety	30,000	39,256	(9,256)

Traffic Safety Fund

<u>Expenditure</u>	<u>Budgeted Amount Original/Final</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive/(Negative)</u>
Public Safety	\$ 20,000	\$ 25,408	\$ (5,408)

Gas Tax Fund

<u>Expenditure</u>	<u>Budgeted Amount Original/Final</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive/(Negative)</u>
Administration	\$ 1,500	\$ 1,694	\$ (194)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTE SERENO

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>	<u>Actual</u>	Variance with
	<u>Original/Final</u>	<u>Amounts</u>	Final Budget - Positive (Negative)
REVENUES			
Property tax	\$ 933,000	\$ 1,058,899	\$ 125,899
Sales tax	14,000	15,918	1,918
Franchise fee	169,000	183,767	14,767
Real property transfer tax	50,000	56,584	6,584
Licenses and permits	552,000	591,385	39,385
Investment earnings	200,000	239,153	39,153
Other agencies	43,200	23,725	(19,475)
Other revenue	154,960	179,022	24,062
Total Revenues	<u>2,116,160</u>	<u>2,348,453</u>	<u>232,293</u>
EXPENDITURES			
Current:			
Administration General Government	1,492,874	1,758,518	(265,644)
Public safety	30,000	39,256	(9,256)
Community development	26,000	18,580	7,420
Total Expenditures	<u>1,548,874</u>	<u>1,816,354</u>	<u>(267,480)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>567,286</u>	<u>532,099</u>	<u>(35,187)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(236,000)	(236,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(236,000)</u>	<u>(236,000)</u>
Net Change in Fund Balance	567,286	296,099	(271,187)
Fund Balance, Beginning of Year	<u>5,600,003</u>	<u>5,600,003</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 6,167,289</u>	<u>\$ 5,896,102</u>	<u>\$ (271,187)</u>

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
LAW ENFORCEMENT FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u> <u>Original/Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES			
Property tax and special assessment taxes	\$ 183,150	\$ 181,320	\$ (1,830)
EXPENDITURES			
Current:			
Public safety	431,009	416,920	14,089
Excess (Deficiency) of Revenues Over Expenditures	(247,859)	(235,600)	12,259
OTHER FINANCING SOURCES (USES)			
Transfers in	-	236,000	236,000
Net Change in Fund Balance	(247,859)	400	248,259
Fund Balance, Beginning of Year	93	93	-
Fund Balance, End of Year	\$ (247,766)	\$ 493	\$ 248,259

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
TRAFFIC SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u> Original/Final	<u>Actual</u> Amounts	Variance with Final Budget - Positive (Negative)
REVENUES			
Fines and Penalties	\$ 4,000	\$ 5,454	\$ 1,454
Other Revenue	400,000	400,000	-
Total Revenues	<u>404,000</u>	<u>405,454</u>	<u>1,454</u>
EXPENDITURES			
Current:			
Public Safety	20,000	25,408	(5,408)
Total Expenditures	<u>20,000</u>	<u>25,408</u>	<u>(5,408)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>384,000</u>	<u>380,046</u>	<u>(3,954)</u>
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(400,000)	(400,000)
Net Change in Fund Balance	384,000	(19,954)	(403,954)
Fund Balance, Beginning of Year	34,468	34,468	-
Fund Balance, End of Year	<u>\$ 418,468</u>	<u>\$ 14,514</u>	<u>\$ (403,954)</u>

The accompanying notes are an integral part of these financial statements.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
GAS TAX FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u> Original/Final	<u>Actual</u> Amounts	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES			
Gas tax	\$ 80,000	\$ 68,475	\$ (11,525)
Franchise Fee	7,000	13,734	6,734
Total Revenues	<u>87,000</u>	<u>82,209</u>	<u>(4,791)</u>
EXPENDITURES			
Current:			
Administration	1,500	1,694	(194)
Public works	807,220	453,659	353,561
Total Expenditures	<u>808,720</u>	<u>455,353</u>	<u>353,367</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(721,720)</u>	<u>(373,144)</u>	<u>348,576</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	285,840	400,000	114,160
Net Change in Fund Balance	(435,880)	26,856	462,736
Fund Balance, Beginning of Year	384,846	384,846	-
Fund Balance, End of Year	<u>\$ (51,034)</u>	<u>\$ 411,702</u>	<u>\$ 462,736</u>

The accompanying notes are an integral part of these financial statements.

SUPPLEMENTARY INFORMATION

CITY OF MONTE SERENO

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2008**

	Post Office Fund	Loma Street Light Fund	Rose Andrews Street Light Fund
ASSETS			
Cash and investments	\$ 14,102	\$ 10,165	\$ 1,830
Receivables:			
Other	3,000	-	-
Total Assets	<u>\$ 17,102</u>	<u>\$ 10,165</u>	<u>\$ 1,830</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Unreserved/Undesignated	17,102	10,165	1,830
Total Fund Balances	<u>17,102</u>	<u>10,165</u>	<u>1,830</u>
Total Liabilities and Fund Balances	<u>\$ 17,102</u>	<u>\$ 10,165</u>	<u>\$ 1,830</u>

CITY OF MONTE SERENO

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (CONTINUED)
JUNE 30, 2008**

Storm Drainage Fund	Total Non-major Governmental Funds
\$ 72,218	\$ 98,315
-	3,000
<u>\$ 72,218</u>	<u>\$ 101,315</u>
\$ -	\$ -
-	-
72,218	101,315
72,218	101,315
<u>\$ 72,218</u>	<u>\$ 101,315</u>

CITY OF MONTE SERENO

**NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2008**

	Post Office Fund	Loma Street Light Fund	Rose Andrews Street Light Fund
REVENUES			
Property tax	\$ -	\$ 1,930	\$ 1,203
Franchise fee	36,000	-	-
Current service charges	-	-	-
Other revenue	-	-	-
Total Revenues	36,000	1,930	1,203
EXPENDITURES			
Current:			
Administration	36,100	-	-
Public works and facilities	-	2,387	1,201
Capital outlay	-	-	-
Total Expenditures	36,100	2,387	1,201
Excess (Deficiency) of Revenues Over Expenditures	(100)	(457)	2
Net Change in Fund Balances	(100)	(457)	2
Fund Balances, Beginning of Year	17,202	10,622	1,828
Fund Balances, End of Year	\$ 17,102	\$ 10,165	\$ 1,830

CITY OF MONTE SERENO

**NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2008**

Storm Drainage Fund	Total Non-major Governmental Funds
\$ -	\$ 3,133
-	36,000
4,485	4,485
<u>13,874</u>	<u>13,874</u>
<u>18,359</u>	<u>57,492</u>
-	36,100
-	3,588
8,628	8,628
<u>8,628</u>	<u>48,316</u>
<u>9,731</u>	<u>9,176</u>
9,731	9,176
<u>62,487</u>	<u>92,139</u>
<u>\$ 72,218</u>	<u>\$ 101,315</u>