

**CITY OF MONTE SERENO**

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**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**CITY OF MONTE SERENO**

**FINANCIAL REPORT  
JUNE 30, 2014**

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VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

To the City Manager and  
Members of the City Council  
City of Monte Sereno, 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 City of Monte Sereno, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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 financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' 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 of 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 City'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 City'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 City of Monte Sereno, California, as of June 30, 2014, 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, budgetary comparison information, and other postemployment benefit plan schedules of funding progress, 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 City's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements are the responsibility of management and were derived from and relate 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 combining and non-major fund financial statements are 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 May 26, 2015, on our consideration of the City of Monte Sereno'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 City of Monte Sereno's internal control over financial reporting and compliance.

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California  
May 26, 2015

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2014 for the City of Monte Sereno. The Management Discussion and Analysis is to be read in conjunction with the Basic Financial Statements.

### FISCAL YEAR 2013-2014 FINANCIAL HIGHLIGHTS

- The City's total net position was \$7,070,800.
- Total City revenues were \$3,145,106, while total expenses were \$3,017,667.
- The City's Unrestricted Net Position is \$6,152,000, equal to over two (2) years of operating expenses.

### OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is in four parts:

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

### The Basic Financial Statements

The Basic Financial Statements are comprised of Government-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 Position and Statement of Activities. The Statement of Net Position 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 private 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 Position 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 Position 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 the City of Monte Sereno, there are no business-type activities as of June 30, 2014.

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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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 from the balance sheets. 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 supplementary schedules (i.e. combining statements) presenting the detail for each of these funds. Major funds are explained later in Management's Discussion and Analysis.

### *The Government-Wide Financial Statements*

The Statement of Net Position 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, is established by Governmental Accounting Standards Board (GASB) Statement No. 34. Each major fund is presented individually, with all non-major funds summarized and presented 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 balance sheets. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, and 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.

# **CITY OF MONTE SERENO**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014**

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Internal Service Funds – The City has no internal service funds at June 30, 2014.

Enterprise Funds – The City has no enterprise funds at June 30, 2014.

Proprietary Funds – The City has no proprietary funds at June 30, 2014.

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 Agency type fund:

- Performance Surety Agency 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 (RSI) 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 and all major special revenue funds, as presented in the governmental fund financial statements, where applicable. RSI also includes the funding progress for retiree health benefits.

### **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 position may serve over time as a useful indicator of a government's financial position. The City's largest assets include investments and capital assets.

\$384,504 or 5.4% of the City's net position are capital assets (e.g., land, buildings, general government infrastructure, equipment, etc.).

\$6,151,999 or 87.0% of the City's net position is unrestricted and may be used to fulfill ongoing obligations to the City residents and creditors.

\$534,296 or 7.6% of the City's net position are subject to external restriction on how they may be used. These restricted assets will be used primarily for capital projects and public safety improvements.

**CITY OF MONTE SERENO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**Statement of Net Position  
Table 1**

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and investments	\$ 7,032,081	\$ 6,797,608
Receivables:		
Taxes	10,673	7,139
Grants	33,333	50,000
Interest	3,315	3,632
Other	45,549	60,948
Capital assets, net of accumulated depreciation	384,504	373,309
<b>Total Assets</b>	<b>7,509,455</b>	<b>7,292,636</b>
<b>LIABILITIES</b>		
Accounts payable	118,406	114,626
Other post employment benefits payable (long-term)	272,600	187,000
Compensated absences payable (long-term)	47,650	47,650
<b>Total Liabilities</b>	<b>438,656</b>	<b>349,276</b>
<b>NET POSITION</b>		
Net investment in capital assets	384,504	373,309
Restricted for:		
Capital projects	256,374	190,737
Other purpose	277,922	186,909
Unrestricted	6,151,999	6,192,405
<b>Total Net Position</b>	<b>\$ 7,070,799</b>	<b>\$ 6,943,360</b>

**CITY OF MONTE SERENO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Statement of Activities  
Table 2**

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 705,746	\$ 628,889
Operating contributions and grants	649,982	207,502
General revenues:		
Property taxes	1,247,134	1,182,320
Other taxes	380,868	369,290
Other	161,376	176,075
<b>Total revenues</b>	<b>3,145,106</b>	<b>2,564,076</b>
<b>EXPENSES</b>		
General government	1,794,737	1,863,384
Public safety	545,632	485,837
Public works	443,254	83,277
Community development	20,860	21,926
Facilities	213,184	101,820
<b>Total expenses</b>	<b>3,017,667</b>	<b>2,556,244</b>
<b>Increase in net position</b>	<b>127,439</b>	<b>7,832</b>
<b>Net position beginning of year</b>	<b>6,943,360</b>	<b>6,935,528</b>
<b>Net position end of year</b>	<b>\$ 7,070,799</b>	<b>\$ 6,943,360</b>

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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### Major Funds

#### General Fund

General Fund Revenues - Revenues for the year ended June 30, 2014, increased by \$553,525 or 25.7% from the prior fiscal year.

- Property taxes and transfer taxes increased by \$80,875 or 6.5% from the prior fiscal year.
- Franchise fees increased by \$3,605 or 1.2% from the prior fiscal year.
- Other revenues decreased by \$16,936 or 13.2% from the prior fiscal year.
- Licenses and permits increased by \$76,173 or 17.8% from the prior fiscal year.
- Intergovernmental revenues increased by \$417,801 or 3606% due to the State Safe Route to School Grant and MTC Article 3 Projects Award.

General Fund Expenditures – General governmental expenditures including transfers out for the year ended June 30, 2014 increased \$450,410 or 21.4% 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, including transfers in for the year ended June 30, 2014, were relatively flat compared to the prior year.

Law Enforcement Fund Expenditures - Law Enforcement Fund expenditures for the year ended June 30, 2014, were comparable to the prior year as expected.

#### 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 \$126,427. The large variances were in the following areas:

- property tax (\$58,652 excess over the estimate) – this attributable to the increase in the assessed property taxes.
- franchise fees (\$55,714 excess over the estimate) – this attributable to the high usage in the refuse and TV cable services.
- real property transfer tax (\$34,378 excess over the estimate) – this attributable to the increase in the assessed real property transfer taxes.

Interest earnings on the City's money market and reserve fund accounts fell short of budgeted amounts. This decrease is attributed entirely to the falling interest rates in FY 2013-2014.

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

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### *Capital Assets*

The City's investment in capital assets, net of accumulated depreciation, as of June 30, 2014, amounts to \$384,504. This figure does not include City infrastructure such as roads and bridges. These figures may be included in future year's financial statements. 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 liabilities consist solely of compensated absences and other postemployment benefits in the amount of \$320,250.

### *Economic Factors*

The past few years the City has experienced limited but stable growth to property taxes. The City continues to be cautiously optimistic that the limited growth trend will continue over the next few years.

Major initiatives for the fiscal year 2014-15 must take into consideration the current economic climate. The initiatives include:

- Maintain preparedness for economic downturns and sustain City operations by closely monitoring current revenues and expenditures.
- Pursuant to the adopted fiscal policy the City will maintain General Fund balance equivalent to at least two years of annual operating budget.
- 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 POSITION**

**JUNE 30, 2014**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 7,032,081
Receivables:	
Taxes	10,673
Grants	33,333
Interest	3,315
Other	45,549
Capital assets, net of accumulated depreciation	384,504
<b>Total Assets</b>	<u><u>7,509,455</u></u>
<b>LIABILITIES</b>	
Accounts payable	118,406
Compensated absences payable (long term)	47,650
Other post employment benefits payable (long term)	272,600
<b>Total Liabilities</b>	<u><u>438,656</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	384,504
Restricted for:	
Capital projects	256,374
Other purpose	277,922
Unrestricted	6,151,999
<b>Total Net Position</b>	<u><u>\$ 7,070,799</u></u>

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

**CITY OF MONTE SERENO**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Total Governmental Activities
Governmental Activities:					
General government	\$ 1,794,737	\$ 81,202	\$ -	\$ -	\$ (1,713,535)
Public safety	545,632	199,424	529,388	-	183,180
Public works	443,254	-	120,594	-	(322,660)
Community development	20,860	425,120	-	-	404,260
Facilities	213,184	-	-	-	(213,184)
<b>Total Primary Government</b>	<b>\$ 3,017,667</b>	<b>\$ 705,746</b>	<b>\$ 649,982</b>	<b>\$ -</b>	<b>(1,661,939)</b>
General Revenues:					
Taxes:					
					1,247,134
					7,576
					298,914
					74,378
					14,699
					146,677
					<u>1,789,378</u>
					127,439
					<u>6,943,360</u>
					<u>\$ 7,070,799</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, 2014**

	General	Law Enforcement Fund	Non-Major Governmental Funds	Totals
<b>ASSETS</b>				
Cash and investments	\$ 6,773,126	\$ 53	\$ 258,902	\$ 7,032,081
Receivables:				
Taxes	10,673	-	-	10,673
Grants	-	33,333	-	33,333
Interest	3,315	-	-	3,315
Other	36,909	-	8,640	45,549
Total Assets	<u>\$ 6,824,023</u>	<u>\$ 33,386</u>	<u>\$ 267,542</u>	<u>\$ 7,124,951</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 66,977	\$ 50,000	\$ 1,429	\$ 118,406
<b>FUND BALANCES</b>				
Restricted	268,183	-	266,113	534,296
Assigned	179,853	-	-	179,853
Unassigned	6,309,010	(16,614)	-	6,292,396
Total Fund Balances	<u>6,757,046</u>	<u>(16,614)</u>	<u>266,113</u>	<u>7,006,545</u>
Total Liabilities and Fund Balances	<u>\$ 6,824,023</u>	<u>\$ 33,386</u>	<u>\$ 267,542</u>	<u>\$ 7,124,951</u>

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 POSITION  
JUNE 30, 2014**

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Fund Balances of Governmental Funds	\$ 7,006,545
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets of governmental activities are not financial resources and therefore are not reported in the governmental funds	384,504
Compensated absences and other post retirement benefits are not due and payable in the current period and therefore are not reported in the governmental funds	<u>(320,250)</u>
Net Position of Governmental Activities	<u><u>\$ 7,070,799</u></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, 2014**

	General	Law Enforcement Fund	Non-Major Governmental Funds	Total
<b>REVENUES</b>				
Property and special assessment taxes	\$ 1,243,788	\$ 181,466	\$ 3,347	\$ 1,428,601
Sales tax	7,576	-	-	7,576
Gas tax	-	-	116,454	116,454
Franchise fee	298,914	-	-	298,914
Real property transfer tax	74,378	-	-	74,378
Licenses and permits	504,493	-	-	504,493
Fines and penalties	17,957	-	-	17,957
Investment earnings	14,609	-	90	14,699
Intergovernmental \ Other agencies	429,388	100,000	-	529,388
Current service charges	1,829	-	4,140	5,969
Other revenue	111,201	-	35,476	146,677
<b>Total Revenues</b>	<b>2,704,133</b>	<b>281,466</b>	<b>159,507</b>	<b>3,145,106</b>
<b>EXPENDITURES</b>				
Current:				
General government	1,718,906	-	1,426	1,720,332
Public safety	11,250	534,382	-	545,632
Public works	401,997	-	41,257	443,254
Community development	20,860	-	-	20,860
Capital outlay	61,796	100,000	51,388	213,184
<b>Total Expenditures</b>	<b>2,214,809</b>	<b>634,382</b>	<b>94,071</b>	<b>2,943,262</b>
Excess (Deficiency) of Revenues Over Expenditures	489,324	(352,916)	65,436	201,844
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	336,300	-	336,300
Transfers out	(336,300)	-	-	(336,300)
<b>Total Other Financing Sources (Uses)</b>	<b>(336,300)</b>	<b>336,300</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>153,024</b>	<b>(16,616)</b>	<b>65,436</b>	<b>201,844</b>
Fund Balances, Beginning of Year	6,604,022	2	200,677	6,804,701
<b>Fund Balances, End of Year</b>	<b>\$ 6,757,046</b>	<b>\$ (16,614)</b>	<b>\$ 266,113</b>	<b>\$ 7,006,545</b>

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, 2014**

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Net Change in Fund Balances - Total Governmental Funds	\$ 201,844
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	22,398
Depreciation expense	(11,203)
Compensated absences and other retirement benefit expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This activity is reconciled as follows:	
OPEB expense	<u>(85,600)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 127,439</u></u>

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

**CITY OF MONTE SERENO**

**STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

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	<u>Performance Surety Agency Fund</u>
<b>ASSETS</b>	
Restricted cash and investments	\$ <u>27,116</u>
<b>LIABILITIES</b>	
Deposits held for others	\$ <u>27,116</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, 2014

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### *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 – SUMMARY OF 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 Position and a Statement of Activities (including changes in net position). 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, as well as long-term debt, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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, 2014

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### *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 position 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, 2014**

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiduciary Funds

Fiduciary Fund Financial Statements include a Statement of Net Position. 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 position and changes in net position 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 Agency 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 and Law Enforcement 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. Donated assets are recorded at their fair value on the date of donation. 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	4-10 Years
Furniture, fixtures, and equipment	5-50 Years

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 collecting them 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.

**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	January 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 financial statement reporting purposes, 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, 2014

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### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### J. Fund Balance Classification:

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

*Nonspendable:* This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City did not have any nonspendable resources as of June 30, 2014.

*Restricted:* This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified traffic safety fines and grants as being restricted because their use is restricted by the terms of the grant and state statute for traffic safety expenditures. Gas taxes and interest are restricted by state statute for use on road and street repair and maintenance projects. Loma Serena Street Lighting District and Rose Andrews Street Lighting District funds are classified as restricted because the use of these funds are restricted for operations and maintenance of the respective light districts, as imposed by the municipal code. Finally, storm drainage has been classified as restricted because these funds are collected from developers and set aside for capacity purposes, as mandated by state statute.

*Committed:* This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2014.

*Assigned:* This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or the City manager, to whom this authority has been formally delegated by the City council. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds for operations of the Post Office, the remaining balance of the general fund transfer to the Law Enforcement Fund, and Road Impact fees for future road maintenance projects.

*Unassigned:* This classification includes the residual fund balance for the General Fund. The Unassigned classification may also include negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts. However, the City did not have any negative residual fund balances in any other governmental funds.

#### K. Use of Restricted Resources

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**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, 2014, consist of the following:

Cash on hand	\$	120
Cash with financial institutions		742,644
Investments		6,316,433
Total Deposits and Investments	\$	<u>7,059,197</u>

**Cash and Investments**

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and investments	\$	7,032,081
Fiduciary funds:		
Cash and investments		27,116
Total Cash and Investments	\$	<u>7,059,197</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, 2014.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**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. Limitations as they relate to interest rate 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, 2014, the City had the following investments. All investments are in the State’s investment pool.

Investment Type	Fair Value	Average Maturity
State Investment Pool	\$ 6,316,433	232

**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, 2014**

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**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, 2014, the City's bank balance of \$752,233, with a reported balance of \$742,644, 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.

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 336,300
Special Revenue Funds:		
Law Enforcement Fund	336,300	-
Total	<u>\$ 336,300</u>	<u>\$ 336,300</u>

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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 Position. 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 reporting, whereby depreciation expense and accumulated depreciation have been recorded. The following table presents the capital assets activity for the year ended June 30, 2014.

	Beginning Balance	Additions	Transfers/ Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 119,888	\$ -	\$ -	\$ 119,888
Total Capital Assets Not Being Depreciated	<u>119,888</u>	<u>-</u>	<u>-</u>	<u>119,888</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	409,663	-	-	409,663
Computer equipment	46,543	10,653	(15,349)	41,847
Office equipment	25,475	11,745	(10,001)	27,219
Total Capital Assets Being Depreciated	<u>481,681</u>	<u>22,398</u>	<u>(25,350)</u>	<u>478,729</u>
Less Accumulated Depreciation For:				
Buildings and improvements	174,172	8,125	-	182,297
Computer equipment	43,862	2,010	(15,349)	30,523
Office equipment	10,226	1,068	(10,001)	1,293
Total Accumulated Depreciation	<u>228,260</u>	<u>11,203</u>	<u>(25,350)</u>	<u>214,113</u>
Total Capital Assets, Being Depreciated, Net	<u>253,421</u>	<u>11,195</u>	<u>-</u>	<u>264,616</u>
Governmental Activities Capital Assets, Net	<u>\$ 373,309</u>	<u>\$ 11,195</u>	<u>\$ -</u>	<u>\$ 384,504</u>

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

General government	<u>\$ 11,203</u>
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**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 6 – PENSION PLAN**

**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), a cost sharing 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 95811.

*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 2013-2014 was 14.726% 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 2013-2014, the City of Monte Sereno’s annual pension cost was \$155,004 and was equal to the City’s required and actual contributions. The required contribution for fiscal year 2013-2014 was determined as part of the June 30, 2011, actuarial valuation using the entry-age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20% for miscellaneous members; and (c) 3.00% cost-of-living adjustment. Both (a) and (b) include an inflation component of 2.75%. 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 average remaining amortization period is 18 years as of the valuation date.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 142,229	100%	\$ -
6/30/2013	148,327	100%	-
6/30/2014	155,004	100%	-

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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 FUND BALANCE CLASSIFICATIONS**

In the fund financial statements, governmental funds report the following classifications of fund balance:

	General Fund	Law Enforcement Fund	Non-Major Governmental Funds			Total
			Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	
<b>Fund Balances:</b>						
<b>Restricted for:</b>						
Capital projects	\$ -	\$ -	\$ 180,042	\$ -	\$ -	\$ 256,374
Other purposes	268,183	-	-	7,794	1,945	277,922
<b>Total Restricted:</b>	<u>268,183</u>	<u>-</u>	<u>180,042</u>	<u>7,794</u>	<u>1,945</u>	<u>534,296</u>
<b>Assigned for:</b>						
Traffic Safety	153,333	-	-	-	-	153,333
Post Office	26,520	-	-	-	-	26,520
<b>Total Assigned:</b>	<u>179,853</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,853</u>
<b>Unassigned:</b>	<u>6,309,010</u>	<u>(16,614)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,292,396</u>
<b>Total fund balances</b>	<u>\$ 6,757,046</u>	<u>\$ (16,614)</u>	<u>\$ 180,042</u>	<u>\$ 7,794</u>	<u>\$ 1,945</u>	<u>\$ 7,006,545</u>

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The City did not report any nonspendable resources for the year ended June 30, 2014.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the City Council, Monte Sereno’s highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by City Council. The City did not report any committed resources for the year ended June 30, 2014.

Assigned – includes amounts that the City of Monte Sereno intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under City Council’s adopted policy, amounts may be assigned by the Finance Officer under the authorization of the City Manager.

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

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### *NOTE 8 - NATURE AND PURPOSE OF REPORTED FUND BALANCE CLASSIFICATIONS (Continued)*

*Unassigned* – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

### *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 nineteen 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 \$350,000 with an Authority self-insured retention of \$1,000,000. The City's self-insured retention is \$5,000. The Authority has purchased excess insurance up to \$29,000,000 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.

### *NOTE 10 – PARTICIPATION IN JOINT POWERS AUTHORITIES*

The City is a member of the West Valley Solid Waste Management Authority (WVSWMA) for solid waste management and Silicon Valley Animal Control Authority (SVACA) 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 WVSWMA**

This program is a joint venture with the cities of Los Gatos, Campbell, Monte Sereno, and Saratoga to provide a coordinated Solid Waste Management Authority 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 Authority is administered by a Board of Directors consisting of four Directors, one each appointed by the Legislative Body of the cities of Campbell, Los Gatos, Monte Sereno and Saratoga. Costs of the programs are allocated based on population with Monte Sereno's portion of the budget equaling 2.7 percent for the year.

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

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### *NOTE 10 – PARTICIPATION IN JOINT POWERS AUTHORITIES (Continued)*

#### **B. Description of SVACA**

This program is a joint venture with the cities of Campbell, Santa Clara, Mountain View, 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 four Directors, one each appointed by the Legislative Body of the cities of Santa Clara, Campbell, Mountain View, 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 1.51% and is expected to be 1.51% for the fiscal year 2014-2015.

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

### *NOTE 11 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS*

In the fiscal year 2014, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 65, Items previously Reported as Assets and Liabilities— This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, certain items that were previously reported as assets and recognizes, as deferred inflows of resources, certain items that were previously reported as liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. This Statement had no impact on the City's financial statements for the year ended June 30, 2014.

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

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### *NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)*

- GASB Statement No. 66, Technical Corrections- 2012 –an amendment of GASB Statements No. 10 and No. 62- The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement had no impact on the City's financial statements for the year ended June 30, 2014.
- GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* — the objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented.

This statement had no impact on the City's financial statements for the year ended June 30, 2014.

- GASB Statement No. 70— *Accounting and Financial Reporting for Non-exchange Financial Guarantees* — Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a non-exchange transaction). As a part of this non-exchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a non-exchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees.

This statement had no impact on the City's financial statements for the year ended June 30, 2014.

The City is currently evaluating the potential impact on its financial statements of the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 68— *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* — The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)**

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014.

- GASB Statement No. 69— *Government Combinations and Disposals of Government Operations* — This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- GASB Statement No. 71— *Pension Transition for Contributions Made Subsequent to the Measurement Date* — The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

**NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

<u>Expenditure</u>	<u>Budgeted Amount Original/Final</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive/(Negative)</u>
General Fund:			
Administration General Government	\$ 1,624,304	\$ 1,780,702	\$ (156,398)
Law Enforcement Fund:			
Public Safety	525,530	534,382	(8,852)

The deficit in the Law enforcement fund will be alleviated by future revenue or additional transfers from the general fund.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS**

**Postemployment Healthcare Plan (OPEB)**

*Plan Description* – The City’s defined benefit postemployment healthcare plan provides medical benefits to employees who satisfy the requirements for retirement under CalPERS (attained age 50 with five years of service or satisfaction of the requirements for a disability retirement.)

*Funding Policy* – The City’s annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years on a closed basis. The current ARC rate is 11.9% of the annual covered payroll, based on the most recent actuarial report dated December 4, 2013. The plan members receiving benefits currently do not make contributions.

*Annual OPEB Costs* – For fiscal year ended June 30, 2014, the City’s annual OPEB cost (expenses) was \$85,600, and was equal to the ARC. The City did not make any contributions to the trust during the year ended June 30, 2014. The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the fiscal year ended June 30, 2014 are as follows:

Trend Information				
Fiscal Years Ending	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligations (Asset)
6/30/2012	\$ 71,300	\$ -	0%	\$ 106,900
6/30/2013	80,100	-	0%	187,000
6/30/2014	85,600	-	0%	272,600

*Funded Status and Funding Progress.* The schedule of funding progress and funded status of the plan as of June 30, 2012, the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$ 725,400
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 725,400</u>
Funded ratio (to actuarial value of plan assets)	0%
Covered payroll (active plan members)	\$ 704,000
UAAL as a percentage of covered payroll	103.04%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

*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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2012
Actuarial cost method	Entry age, Normal Cost
Amortization method	Level percentage of payroll - closed basis
Amortization period	27 years
Asset valuation method	Market value of assets
Investment rate of return (funded)	4.00%
Salary increase	3.25%
Inflation	3.00%
Healthcare cost trend rate	8.5% initial; 5.0% ultimate

***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, 2014**

	<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>
<b>REVENUES</b>			
Property tax	\$ 1,185,136	\$ 1,243,788	\$ 58,652
Sales tax	10,500	7,576	(2,924)
Franchise fee	243,200	298,914	55,714
Real property transfer tax	40,000	74,378	34,378
Licenses and permits	479,000	504,493	25,493
Fines and penalties	13,000	17,957	4,957
Investment earnings	20,000	14,609	(5,391)
Intergovernmental \ Other agencies	454,800	429,388	(25,412)
Current service charges	1,500	1,829	329
Other revenue	130,570	111,201	(19,369)
Total Revenues	<u>2,577,706</u>	<u>2,704,133</u>	<u>126,427</u>
<b>EXPENDITURES</b>			
Current:			
Administration General Government	1,624,304	1,718,906	(94,602)
Public safety	60,000	11,250	48,750
Public works	572,000	401,997	170,003
Community development	30,000	20,860	9,140
Capital outlay		61,796	(61,796)
Total Expenditures	<u>2,286,304</u>	<u>2,214,809</u>	<u>71,495</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>291,402</u>	<u>489,324</u>	<u>197,922</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(336,300)	(336,300)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(336,300)</u>	<u>(336,300)</u>
Net Change in Fund Balance	291,402	153,024	(138,378)
Fund Balance, Beginning of Year	6,604,022	6,604,022	-
Fund Balance, End of Year	<u>\$ 6,895,424</u>	<u>\$ 6,757,046</u>	<u>\$ (138,378)</u>

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

**CITY OF MONTE SERENO**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
LAW ENFORCEMENT FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u> <u>Original/Final</u>	<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Property tax and special assessment taxes	\$ 183,150	\$ 181,466	\$ (1,684)
Intergovernmental \ Other agencies	100,000	100,000	-
Total Revenues	<u>283,150</u>	<u>281,466</u>	<u>(1,684)</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	525,530	534,382	(8,852)
Capital outlay	100,000	100,000	-
Total Expenditures	<u>625,530</u>	<u>634,382</u>	<u>(8,852)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(342,380)</u>	<u>(352,916)</u>	<u>(10,536)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	336,300	336,300
Net Change in Fund Balance	(342,380)	(16,616)	325,764
Fund Balance, Beginning of Year	2	2	-
Fund Balance, End of Year	<u>\$ (342,378)</u>	<u>\$ (16,614)</u>	<u>\$ 325,764</u>

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

**CITY OF MONTE SERENO**

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT  
BENEFITS PLAN  
FOR THE YEAR ENDED JUNE 30, 2014**

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<u>Valuation Date</u> <u>June 30,</u>	<u>Actuarial Value</u> <u>of Assets</u>	<u>Actuarial Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded AAL</u> <u>(UAAL)</u>	<u>Funded Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered Payroll</u>
2012	\$ -	\$ 725,400	\$ 725,400	0%	\$ 704,000	103.04%

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

***SUPPLEMENTARY INFORMATION***

**CITY OF MONTE SERENO**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

	Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non-major Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 181,471	\$ 7,794	\$ 1,945	\$ 67,692	\$ 258,902
Receivables:					
Other	-	-	-	8,640	8,640
Total Assets	<u>\$ 181,471</u>	<u>\$ 7,794</u>	<u>\$ 1,945</u>	<u>\$ 76,332</u>	<u>\$ 267,542</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,429	\$ -	\$ -	\$ -	\$ 1,429
Total Liabilities	<u>1,429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,429</u>
<b>FUND BALANCES</b>					
Restricted	<u>180,042</u>	<u>7,794</u>	<u>1,945</u>	<u>76,332</u>	<u>266,113</u>
Total Fund Balances	<u>180,042</u>	<u>7,794</u>	<u>1,945</u>	<u>76,332</u>	<u>266,113</u>
Total Liabilities and Fund Balances	<u>\$ 181,471</u>	<u>\$ 7,794</u>	<u>\$ 1,945</u>	<u>\$ 76,332</u>	<u>\$ 267,542</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, 2014**

	Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non-major Governmental Funds
<b>REVENUES</b>					
Property tax	\$ -	\$ 2,048	\$ 1,299	\$ -	\$ 3,347
Gas tax	116,454	-	-	-	116,454
Investment Earnings	90	-	-	-	90
Current service charges	-	-	-	4,140	4,140
Other revenue	-	-	-	35,476	35,476
<b>Total Revenues</b>	<b>116,544</b>	<b>2,048</b>	<b>1,299</b>	<b>39,616</b>	<b>159,507</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,426	-	-	-	1,426
Public works and facilities	14,114	2,358	1,190	23,595	41,257
Capital outlay	31,646	-	-	19,742	51,388
<b>Total Expenditures</b>	<b>47,186</b>	<b>2,358</b>	<b>1,190</b>	<b>43,337</b>	<b>94,071</b>
Excess (Deficiency) of Revenues Over Expenditures	69,358	(310)	109	(3,721)	65,436
<b>Net Change in Fund Balances</b>	<b>69,358</b>	<b>(310)</b>	<b>109</b>	<b>(3,721)</b>	<b>65,436</b>
Fund Balances, Beginning of Year	110,684	8,104	1,836	80,053	200,677
Fund Balances, End of Year	\$ 180,042	\$ 7,794	\$ 1,945	\$ 76,332	\$ 266,113



VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 26, 2015.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California

May 26, 2015



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES  
TO APPROPRIATIONS LIMIT WORKSHEETS**

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

We have performed the procedures enumerated below to the Appropriations Limit worksheet of the City of Monte Sereno, for the year ended June 30, 2015. These procedures, which were agreed to by the City of Monte Sereno, as suggested by the League of California Cities (as presented in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines) were performed solely to assist the City of Monte Sereno, California in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City of Monte Sereno management is responsible for the Appropriations limit worksheet.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed Appropriations Limit worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the City Council.

Findings: No exceptions were noted as a result of our procedures.

2. For the Appropriations Limit worksheet, or equivalent, we added last year's limit, to total adjustments, and compared the resulting amount in this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information in the Appropriations Limit worksheet to the prior year appropriations limit adopted by the City Council for the prior year.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year appropriations limit in the Appropriations Limit worksheet to the prior year appropriations limit adopted by the City Council for the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Appropriations Limit worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

*Vavrinek, Trine, Day & Co., LLP.*

Pleasanton, California

May 26, 2015