

CITY OF MONTE SERENO

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

CITY OF MONTE SERENO
FINANCIAL STATEMENTS
JUNE 30, 2012

TABLE OF CONTENTS

| | <u>Page No.</u> |
|--|-----------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements | |
| Government-Wide Financial Statements | |
| Statement of Net Assets | 11 |
| Statement of Activities and Changes in Net Assets | 12 |
| Fund Financial Statements | |
| Governmental Funds | 13 |
| Balance Sheet | |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | 14 |
| Statement of the Revenues, Expenditures, and Changes in Fund Balances | 15 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 16 |
| Fiduciary Funds | |
| Statement of Net Assets | 17 |
| Notes to the Financial Statements | 18 |
| Required Supplementary Information | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | |
| General Fund | 35 |
| Law Enforcement Fund | 36 |
| Schedule of Funding Progress for Retiree Health Benefits | 37 |
| Supplementary Information | |
| Non Major Governmental Funds | |
| Combining Balance Sheet | 38 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances | 39 |
| Independent Auditors' Report on Internal Control Over Financial Reporting Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards | 40 |
| Independent Auditors' Report Agreed – Upon Procedures Applied to Appropriations Limit Worksheets | 42 |



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

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, 2012, 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 respective 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, 2012, 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 28, 2013, 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 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Monte Sereno, California's financial statements as a whole. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California
February 28, 2013

CITY OF MONTE SERENO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2012 for the City of Monte Sereno. The Management Discussion and Analysis is to be read in conjunction with the Basic Financial Statements.

FISCAL YEAR 2011-2012 FINANCIAL HIGHLIGHTS

- The City's total net assets were \$6,935,528.
- Total City revenues were \$2,400,095, while total expenses were \$2,428,468.
- The City's Unrestricted Net Assets are \$6,290,802, equal to over two (2.8) 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 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 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 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, 2012.

CITY OF MONTE SERENO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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 subordinate 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 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, 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, 2012

Internal Service Funds – The City has no internal service funds at June 30, 2012.

Enterprise Funds – The City has no enterprise funds at June 30, 2012.

Proprietary Funds – The City has no proprietary funds at June 30, 2012.

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 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.

\$376,139 or 5.4% of the City's net assets are capital assets (e.g., land, buildings, general government infrastructure, equipment, etc.).

\$6,290,802 or 90.7% of the City's net assets are unrestricted and may be used to fulfill ongoing obligations to the City residents and creditors.

\$268,587 or 3.9% of the City's net assets 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, 2012**

**Statement of Net Assets
Table 1**

| | Governmental Activities | |
|--|--------------------------------|---------------------|
| | 2012 | 2011 |
| ASSETS | | |
| Cash and investments | \$ 6,747,085 | \$ 6,656,590 |
| Cash and investments - restricted | | |
| Receivables: | | |
| Taxes | 8,129 | 8,440 |
| Grants | 25,000 | 34,532 |
| Interest | 5,388 | 6,931 |
| Other | 26,287 | 29,783 |
| Capital assets, net of accumulated depreciation | 376,139 | 392,346 |
| Total Assets | 7,188,028 | 7,128,622 |
| LIABILITIES | | |
| Accounts payable | 102,336 | 55,055 |
| Other post employment benefits payable (long-term) | 106,900 | 70,100 |
| Compensated absences payable (long-term) | 43,264 | 39,569 |
| Total Liabilities | 252,500 | 164,724 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 376,139 | 392,346 |
| Restricted for: | | |
| Capital projects | 146,607 | 136,126 |
| Other purpose | 121,980 | 56,765 |
| Unrestricted | 6,290,802 | 6,378,661 |
| Total Net Assets | \$ 6,935,528 | \$ 6,963,898 |

CITY OF MONTE SERENO

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

**Statement of Activities and Changes in Net Assets
Table 2**

| | Governmental Activities | |
|-------------------------------------|--------------------------------|---------------------|
| | 2012 | 2011 |
| REVENUES | | |
| Program revenues: | | |
| Charges for services | \$ 607,873 | \$ 731,919 |
| Operating contributions and grants | 255,467 | 221,230 |
| General revenues: | | |
| Property taxes | 1,105,111 | 1,098,216 |
| Other taxes | 323,502 | 328,530 |
| Other | 108,142 | 148,701 |
| Total revenues | 2,400,095 | 2,528,596 |
| EXPENSES | | |
| General government | 1,665,115 | 1,568,646 |
| Public safety | 531,271 | 515,426 |
| Public works | 101,097 | 26,549 |
| Community development | 25,546 | 23,619 |
| Facilities | 105,436 | 129,753 |
| Total expenses | 2,428,465 | 2,263,993 |
| Increase in net assets | (28,370) | 264,603 |
| Net assets beginning of year | 6,963,898 | 6,699,295 |
| Net assets end of year | \$ 6,935,528 | \$ 6,963,898 |

CITY OF MONTE SERENO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

Major Funds

General Fund

General Fund Revenues - Revenues for the year ended June 30, 2012, decreased by \$135,494 or 6.3% from the prior fiscal year.

- Property taxes and transfer taxes decreased \$2,021 or .18% from the prior fiscal year.
- Other revenues decreased \$22,670 or 19.75% from the prior fiscal year.
- Licenses and permits decreased \$124,450 or 23.39% from the prior fiscal year.

General Fund Expenditures – General governmental expenditures including transfers out for the year ended June 30, 2012 increased \$82,597 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, 2012, were relatively flat compared to the prior year.

Law Enforcement Fund Expenditures - Law Enforcement Fund expenditures for the year ended June 30, 2012, were comparable to the prior year as expected.

CITY OF MONTE SERENO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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 \$59,372. The single largest variance was in the area of franchise fees that accounted for a \$42,296 excess over the estimate. This is attributable to the Solid Waste/Recycling JPIA restructuring the franchise fees collected for that program. 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 2011-2012.

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, as of June 30, 2012, amounts to \$376,139. 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 \$150,164.

Economic Factors

Over the last several years the economic market has taken a dramatic downturn. City staff continues to be cautiously optimistic for minimal growth in Property Tax and Construction revenues for the upcoming fiscal years.

Major initiatives for the fiscal year 2012-2013 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.
- 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.

CITY OF MONTE SERENO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 6,747,085 |
| Receivables: | |
| Taxes | 8,129 |
| Grants | 25,000 |
| Interest | 5,388 |
| Other | 26,287 |
| Capital assets, net of accumulated depreciation | 376,139 |
| Total Assets | <u>7,188,028</u> |
| LIABILITIES | |
| Accounts payable | 102,336 |
| Compensated absences payable (long term) | 43,264 |
| Other post employment benefits payable (long term) | 106,900 |
| Total Liabilities | <u>252,500</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 376,139 |
| Restricted for: | |
| Capital projects | 146,607 |
| Other purpose | 121,980 |
| Unrestricted | 6,290,802 |
| Total Net Assets | <u>\$ 6,935,528</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, 2012**

| | Expenses | Program Revenues | | | Net Revenue (Expense) and Change in Net Assets |
|--------------------------|---------------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Contributions and Grants | Capital Contributions and Grants | Total Governmental Activities |
| Governmental Activities: | | | | | |
| General government | \$ 1,665,115 | \$ 57,496 | \$ - | \$ - | \$ (1,607,619) |
| Public safety | 531,271 | 199,015 | 143,091 | - | (189,165) |
| Public works | 101,097 | - | 112,376 | - | 11,279 |
| Community development | 25,546 | 351,362 | - | - | 325,816 |
| Facilities | 105,436 | - | - | - | (105,436) |
| Total Primary Government | <u>\$ 2,428,465</u> | <u>\$ 607,873</u> | <u>\$ 255,467</u> | <u>\$ -</u> | <u>(1,565,125)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| | | | | | 1,105,111 |
| | | | | | 10,496 |
| | | | | | 270,254 |
| | | | | | 33,330 |
| | | | | | 9,422 |
| | | | | | 22,986 |
| | | | | | 85,156 |
| | | | | | <u>1,536,755</u> |
| | | | | | (28,370) |
| | | | | | <u>6,963,898</u> |
| | | | | | <u>\$ 6,935,528</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, 2012**

| | General | Law Enforcement Fund | Non-Major Governmental Funds | Totals |
|--|---------------------|----------------------------|------------------------------------|---------------------|
| ASSETS | | | | |
| Cash and investments | \$ 6,576,611 | \$ 141 | \$ 170,333 | \$ 6,747,085 |
| Receivables: | | | | |
| Taxes | 8,129 | - | - | 8,129 |
| Grants | - | 25,000 | - | 25,000 |
| Interest | 5,388 | - | - | 5,388 |
| Other | 24,217 | - | 2,070 | 26,287 |
| Total Assets | <u>\$ 6,614,345</u> | <u>\$ 25,141</u> | <u>\$ 172,403</u> | <u>\$ 6,811,889</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 60,232 | \$ 25,000 | \$ 17,104 | \$ 102,336 |
| FUND BALANCES | | | | |
| Restricted | 113,288 | - | 155,299 | 268,587 |
| Assigned | 194,325 | 141 | - | 194,466 |
| Unassigned | 6,246,500 | - | - | 6,246,500 |
| Total Fund Balances | <u>6,554,113</u> | <u>141</u> | <u>155,299</u> | <u>6,709,553</u> |
| Total Liabilities and Fund Balances | <u>\$ 6,614,345</u> | <u>\$ 25,141</u> | <u>\$ 172,403</u> | <u>\$ 6,811,889</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 ASSETS
JUNE 30, 2012**

| | |
|--|----------------------------|
| Fund Balances of Governmental Funds | \$ 6,709,553 |
| 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 | 376,139 |
| 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>(150,164)</u> |
| Net Assets of Governmental Activities | <u><u>\$ 6,935,528</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, 2012**

| | General | Law Enforcement Fund | Non-Major Governmental Funds | Total |
|--|---------------------|----------------------------|------------------------------------|---------------------|
| REVENUES | | | | |
| Property and special assessment taxes | \$ 1,102,273 | \$ 181,467 | \$ 2,838 | \$ 1,286,578 |
| Sales tax | 10,496 | - | - | 10,496 |
| Gas tax | - | - | 108,236 | 108,236 |
| Franchise fee | 270,254 | - | - | 270,254 |
| Real property transfer tax | 33,330 | - | - | 33,330 |
| Licenses and permits | 407,507 | - | - | 407,507 |
| Fines and penalties | 17,548 | - | - | 17,548 |
| Investment earnings | 22,872 | - | 114 | 22,986 |
| Intergovernmental \ Other agencies | 43,091 | 100,000 | - | 143,091 |
| Current service charges | 1,351 | - | 4,140 | 5,491 |
| Other revenue | 92,128 | - | 2,450 | 94,578 |
| Total Revenues | <u>2,000,850</u> | <u>281,467</u> | <u>117,778</u> | <u>2,400,095</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,606,713 | - | 1,700 | 1,608,413 |
| Public safety | 50,994 | 480,277 | - | 531,271 |
| Public works | - | - | 101,097 | 101,097 |
| Community development | 25,546 | - | - | 25,546 |
| Capital outlay | - | 100,000 | 5,436 | 105,436 |
| Total Expenditures | <u>1,683,253</u> | <u>580,277</u> | <u>108,233</u> | <u>2,371,763</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>317,597</u> | <u>(298,810)</u> | <u>9,545</u> | <u>28,332</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | 298,900 | - | 298,900 |
| Transfers out | (298,900) | - | - | (298,900) |
| Total Other Financing Sources (Uses) | <u>(298,900)</u> | <u>298,900</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | 18,697 | 90 | 9,545 | 28,332 |
| Fund Balances, Beginning of Year | <u>6,535,416</u> | <u>51</u> | <u>145,754</u> | <u>6,681,221</u> |
| Fund Balances, End of Year | <u>\$ 6,554,113</u> | <u>\$ 141</u> | <u>\$ 155,299</u> | <u>\$ 6,709,553</u> |

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, 2012**

| | |
|---|--------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 28,332 |
| <p>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:</p> | |
| <p>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:</p> | |
| Cost of assets capitalized | - |
| Depreciation expense | (16,207) |
| <p>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 an expenditure in governmental funds. This activity is reconciled as follows:</p> | |
| OPEB expense | (36,800) |
| Change in compensated absences liability | <u>(3,695)</u> |
| Change in Net Assets of Governmental Activities | <u>\$ (28,370)</u> |

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

CITY OF MONTE SERENO

**STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

| | <u>Performance Surety Agency Fund</u> |
|---------------------------------|---|
| ASSETS | |
| Restricted cash and investments | \$ 27,116 |
| | <u>27,116</u> |
| LIABILITIES | |
| Deposits held for others | \$ 27,116 |
| | <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, 2012

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, 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, 2012

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, 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. 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, 2012

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, 2012

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, 2012.

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 Street and Rose Andrews Street Light 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, 2012.

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, 2012**

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, 2012, consist of the following:

| | | |
|----------------------------------|----|-------------------------|
| Cash on hand | \$ | 120 |
| Cash with financial institutions | | 492,568 |
| Investments | | <u>6,281,513</u> |
| Total Deposits and Investments | \$ | <u><u>6,774,201</u></u> |

Cash and Investments

Cash and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

| | | |
|----------------------------|----|-------------------------|
| Statement of net assets: | | |
| Cash and investments | \$ | 6,747,085 |
| Fiduciary funds: | | |
| Cash and investments | | <u>27,116</u> |
| Total Cash and Investments | \$ | <u><u>6,774,201</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, 2012.

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012, the City had the following investments. All investments are in the State’s investment pool.

| Investment Type | Fair Value | Average Maturity |
|-----------------------|--------------|------------------|
| State Investment Pool | \$ 6,281,513 | 268 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, 2012**

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, 2012, the City's bank balance of \$570,741, with a reported balance of \$492,568, 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 | \$ - | \$ 298,900 |
| Special Revenue Funds: | | |
| Law Enforcement Fund | 298,900 | - |
| Total | <u>\$ 298,900</u> | <u>\$ 298,900</u> |

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 reporting, whereby depreciation expense and accumulated depreciation have been recorded. The following table presents the capital assets activity for the year ended June 30, 2012.

| | Beginning Balance | Additions | Transfers/ Disposals | 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 | 46,543 | - | - | 46,543 |
| Office equipment | 24,153 | - | - | 24,153 |
| Total Capital Assets Being Depreciated | 480,359 | - | - | 480,359 |
| Less Accumulated Depreciation For: | | | | |
| Buildings and improvements | 157,854 | 8,193 | - | 166,047 |
| Computer equipment | 34,705 | 7,168 | - | 41,873 |
| Office equipment | 15,342 | 846 | - | 16,188 |
| Total Accumulated Depreciation | 207,901 | 16,207 | - | 224,108 |
| Total Capital Assets, Being Depreciated, Net | 272,458 | (16,207) | - | 256,251 |
| Governmental Activities Capital Assets, Net | \$ 392,346 | \$ (16,207) | \$ - | \$ 376,139 |

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

| | |
|--------------------|-----------|
| General government | \$ 16,207 |
|--------------------|-----------|

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

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 2011-2012 was 13.820% 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 2011-2012, the City of Monte Sereno’s annual pension cost was \$142,229 and was equal to the City’s required and actual contributions. The required contribution for fiscal year 2011-2012 was determined as part of the June 30, 2009, 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 3.55% to 14.45% for miscellaneous members; and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. 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 |
|-----------------------|---------------------------------|-------------------------------------|---------------------------|
| 6/30/2010 | \$ 129,504 | 100% | \$ - |
| 6/30/2011 | 135,425 | 100% | - |
| 6/30/2012 | 142,229 | 100% | - |

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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:

| | Non-Major Governmental Funds | | | | | | Total |
|----------------------------|------------------------------|----------------------|------------------|------------------------|--------------------------------|---------------------|---------------------|
| | General Fund | Law Enforcement Fund | Gas Tax Fund | Loma Street Light Fund | Rose Andrews Street Light Fund | Storm Drainage Fund | |
| Fund Balances: | | | | | | | |
| Restricted for: | | | | | | | |
| Capital projects | \$ - | \$ - | \$ 79,374 | \$ - | \$ - | \$ 67,233 | \$ 146,607 |
| Other purposes | 113,288 | - | - | 8,451 | 241 | - | 121,980 |
| Total Restricted: | <u>113,288</u> | <u>-</u> | <u>79,374</u> | <u>8,451</u> | <u>241</u> | <u>67,233</u> | <u>268,587</u> |
| Assigned for: | | | | | | | |
| Traffic Safety | 155,218 | - | - | - | - | - | 155,218 |
| Other purposes | 39,107 | 141 | - | - | - | - | 39,248 |
| Total Assigned: | <u>194,325</u> | <u>141</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>194,466</u> |
| Unassigned: | <u>6,246,500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,304,098</u> |
| Total fund balances | <u>\$ 6,554,113</u> | <u>\$ 141</u> | <u>\$ 79,374</u> | <u>\$ 8,451</u> | <u>\$ 241</u> | <u>\$ 67,233</u> | <u>\$ 6,767,151</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, 2012.

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, 2012.

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, 2012

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 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 \$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 Program (WVSWMP) 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 WVSWMP

This program is a joint venture with the cities of Los Gatos, Campbell, Monte Sereno, and Saratoga to provide a coordinated 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 3.3 percent for the year.

B. Description of SVACA

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 1.98% and is expected to be 2.03% for the fiscal year 2012-2013.

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 10 – PARTICIPATION IN JOINT POWERS AUTHORITIES (Continued)

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

Change in Accounting Principles

In December 2009, the GASB issued GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The provisions related to the use and reporting of the alternative measurement method are effective on the date of issuance. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. The City implemented the provisions of this Statement in fiscal year ending June 30, 2012, with no impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged. The City implemented the provisions of this Statement in fiscal year ending June 30, 2012, with no significant impact on the financial statements.

New Governmental Accounting and Reporting Standards

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. This Statement also requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The City will be required to implement the provisions of this Statement in fiscal year ending June 30, 2013, and is currently evaluating impact on the financial statements.

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity by clarifying the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The City will be required to implement the provisions of this Statement in fiscal year ending June 30, 2013, and does not believe it will have a significant impact on the financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The City will be required to implement the provisions of this Statement in fiscal year ending June 30, 2013, and is currently evaluating the impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The City will be required to implement the provisions of this Statement in fiscal year ending June 30, 2013, and is currently evaluating the impact on the financial statements.

CITY OF MONTE SERENO

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In March 2012, the GASB issued 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 or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and 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. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The City will be required to implement the provisions of this Statement in fiscal year ending June 30, 2014, and is currently evaluating the impact on the financial statements.

In March 2012, the GASB issued 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 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The City will be required to implement the provisions of this Statement in fiscal year ending June 30, 2014, and is currently evaluating the impact on the financial statements.

In June 2012, the GASB issued 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The City will be required to implement the provisions of this Statement in fiscal year ending June 30, 2015, and is currently evaluating the impact on the financial statements.

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

| Expenditure | Budgeted Amount Original/Final | Actual Amount | Variance with Final Budget Positive/(Negative) |
|-----------------------------------|-----------------------------------|------------------|---|
| General Fund: | | | |
| Administration General Government | \$ 1,454,990 | \$ 1,606,713 | \$ (151,723) |
| Public safety | 25,000 | 50,994 | (25,994) |

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.) The amount of the retiree’s medical benefit is dependent upon both years of service with the City and the year the employee retires.

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 on going 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 5.1% of the annual covered payroll, based on the most recent actuarial report dated May 26, 2010. The plan members receiving benefits currently do not make contributions.

Annual OPEB Costs – For fiscal year ended June 30, 2012, the City’s annual OPEB cost (expenses) was \$36,800, and was equal to the ARC. The City did not make any contributions to the trust during the year ended June 30, 2012. 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, 2012 are as follows:

| Trend Information | | | | |
|------------------------|---------------------|----------------------------------|---------------------------|---------------------------------|
| Fiscal Years Ending | Annual OPEB Cost | Actual Employer Contributions | Percentage Contributed | Net OPEB Obligations (Asset) |
| 6/30/2010 | \$ 34,500 | \$ - | 0% | \$ 34,500 |
| 6/30/2011 | 35,600 | - | 0% | 70,100 |
| 6/30/2012 | 36,800 | - | 0% | 106,900 |

CITY OF MONTE SERENO

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress. The schedule of funding progress and funded status of the plan as of June 30, 2009, the most recent actuarial valuation, is as follows:

| | | |
|--|-----------|----------------|
| Actuarial accrued liability (AAL) | \$ | 202,700 |
| Actuarial value of plan assets | | - |
| Unfunded actuarial accrued liability (UAAL) | <u>\$</u> | <u>202,700</u> |
| Funded ratio (to actuarial value of plan assets) | | 0% |
| Covered payroll (active plan members) | \$ | 674,000 |
| UAAL as a percentage of covered payroll | | 30.07% |

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.

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, 2009 |
| Actuarial cost method | Entry age, Normal Cost |
| Amortization method | Level percentage of payroll |
| Amortization period | 30 years |
| Asset valuation method | Market value of assets |
| Investment rate of return (funded) | 7.75% |
| Salary increase | 3.25% |
| Inflation | 3.00% |
| Healthcare cost trend rate | 9.3% initial; 4.5% 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, 2012**

| | <u>Budgeted Amounts</u> | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|---------------------|-----------------------|
| | <u>Original/Final</u> | <u>Amounts</u> | <u>Final Budget -</u> |
| | | | <u>Positive</u> |
| | | | <u>(Negative)</u> |
| REVENUES | | | |
| Property tax | \$ 1,117,920 | \$ 1,102,273 | \$ (15,647) |
| Sales tax | 10,000 | 10,496 | 496 |
| Franchise fee | 227,958 | 270,254 | 42,296 |
| Real property transfer tax | 40,000 | 33,330 | (6,670) |
| Licenses and permits | 402,000 | 407,507 | 5,507 |
| Fines and penalties | 10,000 | 17,548 | 7,548 |
| Investment earnings | 36,000 | 22,872 | (13,128) |
| Intergovernmental \ Other agencies | 18,200 | 43,091 | 24,891 |
| Current service charges | 1,000 | 1,351 | 351 |
| Other revenue | 78,400 | 92,128 | 13,728 |
| Total Revenues | <u>1,941,478</u> | <u>2,000,850</u> | <u>59,372</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Administration General Government | 1,454,990 | 1,606,713 | (151,723) |
| Public safety | 25,000 | 50,994 | (25,994) |
| Community development | 26,000 | 25,546 | 454 |
| Total Expenditures | <u>1,505,990</u> | <u>1,683,253</u> | <u>(177,263)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>435,488</u> | <u>317,597</u> | <u>(117,891)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | - | (298,900) | (298,900) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(298,900)</u> | <u>(298,900)</u> |
| Net Change in Fund Balance | 435,488 | 18,697 | (416,791) |
| Fund Balance, Beginning of Year (Restated) | <u>6,535,416</u> | <u>6,535,416</u> | <u>-</u> |
| Fund Balance, End of Year | <u>\$ 6,970,904</u> | <u>\$ 6,554,113</u> | <u>\$ (416,791)</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, 2012**

| | <u>Budgeted Amounts</u> <u>Original/Final</u> | <u>Actual</u> <u>Amounts</u> | Variance with Final Budget - Positive (Negative) |
|--|--|---------------------------------|---|
| REVENUES | | | |
| Property tax and special assessment taxes | \$ 183,150 | \$ 181,467 | \$ (1,683) |
| Intergovernmental \ Other agencies | 100,000 | 100,000 | - |
| Total Revenues | <u>283,150</u> | <u>281,467</u> | <u>(1,683)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Public safety | 495,755 | 480,277 | 15,478 |
| Capital outlay | 100,000 | 100,000 | - |
| Total Expenditures | <u>595,755</u> | <u>580,277</u> | <u>15,478</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(312,605)</u> | <u>(298,810)</u> | <u>13,795</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 298,900 | 298,900 |
| Net Change in Fund Balance | (312,605) | 90 | 312,695 |
| Fund Balance, Beginning of Year | 51 | 51 | - |
| Fund Balance, End of Year | <u>\$ (312,554)</u> | <u>\$ 141</u> | <u>\$ 312,695</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, 2012**

| Valuation Date | Actuarial Value | Actuarial Accrued | Unfunded AAL | Funded Ratio | Covered | UAAL as a |
|----------------|-----------------|-------------------|--------------|--------------|------------|-----------------|
| June 30, | of Assets | Liability (AAL) | (UAAL) | | Payroll | Percentage of |
| | | | | | | Covered Payroll |
| 2009 | \$ - | \$ 202,700 | \$ 202,700 | 0% | \$ 674,000 | 30.07% |

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, 2012**

| | Gas Tax Fund | Loma Street Light Fund | Rose Andrews Street Light Fund | Storm Drainage Fund | Total Non-major Governmental Funds |
|--|--------------------|---------------------------|--------------------------------------|---------------------------|---|
| ASSETS | | | | | |
| Cash and investments | \$ 96,478 | \$ 8,451 | \$ 241 | \$ 65,163 | \$ 170,333 |
| Receivables: | | | | | |
| Other | - | - | - | 2,070 | 2,070 |
| Total Assets | \$ 96,478 | \$ 8,451 | \$ 241 | \$ 67,233 | \$ 172,403 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 17,104 | \$ - | \$ - | \$ - | \$ 17,104 |
| Total Liabilities | 17,104 | - | - | - | 17,104 |
| FUND BALANCES | | | | | |
| Restricted | 79,374 | 8,451 | 241 | 67,233 | 155,299 |
| Total Fund Balances | 79,374 | 8,451 | 241 | 67,233 | 155,299 |
| Total Liabilities and Fund Balances | \$ 96,478 | \$ 8,451 | \$ 241 | \$ 67,233 | \$ 172,403 |

CITY OF MONTE SERENO

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

| | Gas Tax Fund | Loma Street Light Fund | Rose Andrews Street Light Fund | Storm Drainage Fund | Total Non-major Governmental Funds |
|--|--------------------|---------------------------|-----------------------------------|------------------------|---|
| REVENUES | | | | | |
| Property tax | \$ - | \$ 1,897 | \$ 941 | \$ - | \$ 2,838 |
| Gas tax | 108,236 | - | - | - | 108,236 |
| Investment Earnings | 114 | - | - | - | 114 |
| Current service charges | - | - | - | 4,140 | 4,140 |
| Other revenue | - | - | - | 2,450 | 2,450 |
| Total Revenues | 108,350 | 1,897 | 941 | 6,590 | 117,778 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 1,700 | - | - | - | 1,700 |
| Public works and facilities | 97,323 | 2,479 | 1,295 | - | 101,097 |
| Capital outlay | - | - | - | 5,436 | 5,436 |
| Total Expenditures | 99,023 | 2,479 | 1,295 | 5,436 | 108,233 |
| Excess (Deficiency) of Revenues Over Expenditures | 9,327 | (582) | (354) | 1,154 | 9,545 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | - | - | - | - |
| Transfers out | - | - | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - | - | - |
| Net Change in Fund Balances | 9,327 | (582) | (354) | 1,154 | 9,545 |
| Fund Balances, Beginning of Year | 70,047 | 9,033 | 595 | 66,079 | 145,754 |
| Fund Balances, End of Year | \$ 79,374 | \$ 8,451 | \$ 241 | \$ 67,233 | \$ 155,299 |



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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Monte Sereno's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Monte Sereno's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council, management, the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California

February 28, 2013



**INDEPENDENT AUDITORS' REPORT ON AGREED-UPON PROCEDURES
APPLIED 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, 2012. These procedures, which were agreed to by the City of Monte Sereno, and 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 engagement to apply agreed-upon procedures 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 the specified users of 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, 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 perform 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 use of the City Council and management and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
February 28, 2013