

**CITY OF MONTE SERENO**

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**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

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**CITY OF MONTE SERENO**

**FINANCIAL REPORT  
JUNE 30, 2016**

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

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno, California, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 72 *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective July 1, 2015. Our opinions are not modified with respect to these matters.

***Other Matters***

*Required Supplementary Information*

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


*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pleasanton, California  
March 13, 2017

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2016 for the City of Monte Sereno. The Management Discussion and Analysis is to be read in conjunction with the Basic Financial Statements.

### FISCAL YEAR 2015-2016 FINANCIAL HIGHLIGHTS

- The City's total net position was \$6,427,635.
- Total City revenues were \$3,147,521, while total expenses were \$2,911,082.
- The City's Unrestricted Net Position is \$5,223,433, equal to over one and half years of operating expenses.

### OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is in four parts:

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

### The Basic Financial Statements

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

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

All of the City's activities are required to be grouped into government activities and business-type activities. The entire amount in the Statement of Net Position and Statement of Activities is also required to be separated into governmental activities or business-type activities in order to provide a summary of these two activities as a whole. In the case of the City of Monte Sereno, there are no business-type activities as of June 30, 2016.

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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

### *The Government-Wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, is established by Governmental Accounting Standards Board (GASB) Statement No. 34. Each major fund is presented individually, with all non-major funds summarized and presented in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the fiscal year, and may change from year to year as a result of changes in the pattern of the City's activities.

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

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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Internal Service Funds – The City has no internal service funds at June 30, 2016.

Enterprise Funds – The City has no enterprise funds at June 30, 2016.

Proprietary Funds – The City has no proprietary funds at June 30, 2016.

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

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

### Notes to the Financial Statement:

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

### Required Supplementary Information

The Required Supplementary Information (RSI) follows the basic financial statements and includes a budgetary comparison schedule that includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund and all major special revenue funds, as presented in the governmental fund financial statements, where applicable. RSI also includes the funding progress for retiree health benefits.

### Combining and Individual Fund Statements and Schedules

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

### Government-Wide Analysis

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

\$363,655 or 4.7% of the City's net position are capital assets (e.g., land, buildings, general government infrastructure, equipment, etc.).

\$5,223,433 or 81.3% of the City's net position is unrestricted and may be used to fulfill ongoing obligations to the City residents and creditors.

\$840,547 or 13.1% of the City's net position are subject to external restriction on how they may be used. These restricted assets will be used primarily for capital projects and public safety improvements.

**CITY OF MONTE SERENO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Statement of Net Position  
Table 1**

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and investments	\$ 7,308,085	\$ 7,043,859
Receivables:		
Taxes	6,662	10,673
Grants	25,000	17,499
Interest	8,481	3,315
Other	34,577	52,986
Capital assets, net of accumulated depreciation	363,655	379,089
<b>Total Assets</b>	<b>7,746,460</b>	<b>7,507,421</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pensions	128,694	111,286
<b>LIABILITIES</b>		
Accounts payable	95,886	62,449
Other post employment benefits payable (long-term)	455,600	364,200
Compensated absences payable (long-term)	40,214	47,650
Net pension liabilities (long-term)	748,563	749,395
<b>Total Liabilities</b>	<b>1,340,263</b>	<b>1,223,694</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	107,256	203,817
<b>NET POSITION</b>		
Net investment in capital assets	363,655	379,089
Restricted for:		
Capital projects	371,672	311,563
Road and streetlight projects	468,875	335,081
Unrestricted	5,223,433	5,165,463
<b>Total Net Position</b>	<b>\$ 6,427,635</b>	<b>\$ 6,191,196</b>



**CITY OF MONTE SERENO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Statement of Activities  
Table 2**

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 767,943	\$ 579,535
Operating contributions and grants	249,171	252,335
General revenues:		
Property taxes	1,516,833	1,368,972
Other taxes	403,425	418,103
Other	210,149	294,581
<b>Total revenues</b>	<b>3,147,521</b>	<b>2,913,526</b>
<b>EXPENSES</b>		
General government	1,926,760	1,931,095
Public safety	738,786	594,370
Public works	45,884	22,263
Community development	45,314	33,121
Facilities	154,338	346,547
<b>Total expenses</b>	<b>2,911,082</b>	<b>2,927,396</b>
<b>Increase in net position</b>	236,439	(13,870)
<b>Net position beginning of year</b>	<b>6,191,196</b>	<b>6,205,066</b>
<b>Net position end of year</b>	<b>\$ 6,427,635</b>	<b>\$ 6,191,196</b>

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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### Major Funds

#### General Fund

General Fund Revenues - Revenues for the year ended June 30, 2016, increased by \$397,494 or 17.2% from the prior fiscal year.

- Property taxes and special assessment taxes increased by \$147,565 or 10.8% from the prior fiscal year.
- Franchise fees decreased by \$2,515 or 0.8% from the prior fiscal year.
- Other revenues increased by \$65,606 or 82.6% from the prior fiscal year.
- Licenses and permits increased by \$190,867 or 49.6% from the prior fiscal year.
- Intergovernmental revenues increased by \$127 or 0.4% from the prior fiscal year.

General Fund Expenditures – General governmental expenditures including transfers out for the year ended June 30, 2016 increased \$224,431 or 9.7% 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, 2016, were relatively flat compared to the prior year.

Law Enforcement Fund Expenditures - Law Enforcement Fund expenditures for the year ended June 30, 2016, were comparable to the prior year and in line with the annual budget figures as expected.

#### General Fund Budgetary Highlights

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

Actual revenues were higher than the budgeted amounts by \$428,161. The large variances were in the following areas:

- property tax (\$244,441 excess over the estimate) – this is attributable to the increase in the assessed property taxes.
- licenses and permits (\$108,305 excess over the estimate) – this is attributable to the increase in the licenses and permits issued in the current year.
- real property transfer tax (\$29,421 excess over the estimate) – this is attributable to the increase in assessed real property transfer taxes.

Interest earnings on the City's money market and reserve fund accounts exceeded the budgeted amount. This increase is attributed to the rise of interest rates in FY 2015-2016.

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

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### *Capital Assets*

The City's investment in capital assets, net of accumulated depreciation, as of June 30, 2016, amounts to \$363,655. 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 #6 to these financial statements.

### *Long - Term Liabilities*

The City's long-term liabilities consist solely of compensated absences, other postemployment benefits, and net pension liabilities in the amount of \$1,244,377.

### *Economic Factors*

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

Major initiatives for the fiscal year 2016-17 must take into consideration the current economic climate. The initiatives include:

- Maintain preparedness for economic downturns and sustain City operations by closely monitoring current revenues and expenditures.
- Pursuant to the adopted fiscal policy the City will maintain General Fund balance equivalent to at least two years of annual operating budget.
- Preserve the commitment of capital improvements reserves for projects related to public safety, infrastructure, and facilities.
- Prioritize City services that can be rendered within the parameters of the current revenue climate.
- Continue to pursue full cost recovery for services provided.

### **REQUEST FOR FINANCIAL INFORMATION**

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

***BASIC FINANCIAL STATEMENTS***

***GOVERNMENT-WIDE FINANCIAL STATEMENTS***

**CITY OF MONTE SERENO**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 7,308,085
Receivables:	
Taxes	6,662
Grants	25,000
Interest	8,481
Other	34,577
Capital assets, net of accumulated depreciation	<u>363,655</u>
Total Assets	<u>7,746,460</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>128,694</u>
<b>LIABILITIES</b>	
Accounts payable	95,886
Compensated absences payable (long term)	40,214
Other post employment benefits payable (long term)	455,600
Net pension liabilities (long term)	<u>748,563</u>
Total Liabilities	<u>1,340,263</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>107,256</u>
<b>NET POSITION</b>	
Net investment in capital assets	363,655
Restricted for:	
Capital projects	371,672
Road and streetlight projects	468,875
Unrestricted	<u>5,223,433</u>
Total Net Position	<u>\$ 6,427,635</u>

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

**CITY OF MONTE SERENO**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

	Expenses	Program Revenues			Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Total Governmental Activities
Governmental Activities:					
General government	\$ 1,926,760	\$ 80,435	\$ -	\$ -	\$ (1,846,325)
Public safety	738,786	192,638	153,114	-	(393,034)
Public works	45,884	-	96,057	-	50,173
Community development	45,314	494,870	-	-	449,556
Facilities	154,338	-	-	-	(154,338)
Total Primary Government	<u>\$ 2,911,082</u>	<u>\$ 767,943</u>	<u>\$ 249,171</u>	<u>\$ -</u>	<u>(1,893,968)</u>
General Revenues:					
Taxes:					
					1,516,833
					26,825
					301,421
					73,787
					27,263
					182,886
					<u>2,130,407</u>
					236,439
					<u>6,191,196</u>
					<u>\$ 6,427,635</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, 2016**

	General	Law Enforcement Fund	Non-Major Governmental Funds	Totals
<b>ASSETS</b>				
Cash and investments	\$ 6,935,690	\$ 99	\$ 372,296	\$ 7,308,085
Receivables:				
Taxes	6,662	-	-	6,662
Grants	-	25,000	-	25,000
Interest	8,481	-	-	8,481
Other	24,718	-	9,859	34,577
	<u>\$ 6,975,551</u>	<u>\$ 25,099</u>	<u>\$ 382,155</u>	<u>\$ 7,382,805</u>
Total Assets				
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 69,054	\$ 25,000	\$ 1,832	\$ 95,886
<b>FUND BALANCES</b>				
Restricted	460,125	99	380,323	840,547
Assigned	178,506	-	-	178,506
Unassigned	6,267,866	-	-	6,267,866
	<u>6,906,497</u>	<u>99</u>	<u>380,323</u>	<u>7,286,919</u>
Total Fund Balances				
Total Liabilities and Fund Balances	<u>\$ 6,975,551</u>	<u>\$ 25,099</u>	<u>\$ 382,155</u>	<u>\$ 7,382,805</u>

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

**CITY OF MONTE SERENO**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

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Fund Balances of Governmental Funds	\$ 7,286,919
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets of governmental activities are not financial resources and therefore are not reported in the governmental funds	363,655
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences and other post retirement benefits	(495,814)
Net pension liability	(748,563)
Deferred outflows related to pension liabilities are not required to be accounted for in the governmental funds	128,694
Deferred inflows related to pension liabilities are not required to be accounted for in the governmental funds	<u>(107,256)</u>
Net Position of Governmental Activities	<u><u>\$ 6,427,635</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, 2016**

	General	Law Enforcement Fund	Non-Major Governmental Funds	Total
<b>REVENUES</b>				
Property and special assessment taxes	\$ 1,513,408	\$ 181,467	\$ 3,425	\$ 1,698,300
Sales tax	26,825	-	-	26,825
Gas tax	-	-	80,517	80,517
Franchise fee	301,421	-	-	301,421
Real property transfer tax	73,787	-	-	73,787
Licenses and permits	575,305	-	-	575,305
Fines and penalties	11,171	-	-	11,171
Investment earnings	26,788	-	475	27,263
Intergovernmental \ Other agencies	30,995	122,119	-	153,114
Current service charges	-	-	15,540	15,540
Other revenue	145,028	-	39,250	184,278
Total Revenues	<u>2,704,728</u>	<u>303,586</u>	<u>139,207</u>	<u>3,147,521</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,940,739	-	1,424	1,942,163
Public safety	25,986	712,800	-	738,786
Public works	-	-	45,884	45,884
Community development	45,314	-	-	45,314
Capital outlay	-	122,119	32,219	154,338
Total Expenditures	<u>2,012,039</u>	<u>834,919</u>	<u>79,527</u>	<u>2,926,485</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>692,689</u>	<u>(531,333)</u>	<u>59,680</u>	<u>221,036</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	531,432	-	531,432
Transfers out	(531,432)	-	-	(531,432)
Total Other Financing Sources (Uses)	<u>(531,432)</u>	<u>531,432</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	161,257	99	59,680	221,036
Fund Balances, Beginning of Year	<u>6,745,240</u>	<u>-</u>	<u>320,643</u>	<u>7,065,883</u>
Fund Balances, End of Year	<u>\$ 6,906,497</u>	<u>\$ 99</u>	<u>\$ 380,323</u>	<u>\$ 7,286,919</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, 2016**

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Net Change in Fund Balances - Total Governmental Funds	\$ 221,036
Amounts reported for governmental activities in the Statement of Activities differ from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:	
Governmental funds report capital assets as expenditures, but in the Statement of Activities the cost of the assets are allocated over their estimated useful lives as depreciation expense or allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:	
Depreciation expense	(15,434)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This activity is reconciled as follows:	
Compensated absences	7,436
OPEB liabilities	(91,400)
Pension expense	114,801
	<hr/>
Change in Net Position of Governmental Activities	<u>\$ 236,439</u>

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

**CITY OF MONTE SERENO**

**STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2016**

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

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

***NOTES TO THE FINANCIAL STATEMENTS***

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 1 – GENERAL*

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

### *NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

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

#### **A. Reporting Entity**

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

#### **B. Basis of Accounting/Measurement Focus**

##### **Government–Wide Financial Statements**

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

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets, deferred outflows/inflows and liabilities, including capital assets, as well as long-term debt, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of program revenues for the City are reported in three categories: 1) charges for services, 2) operating contributions and grants, and 3) capital contributions and grants. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Contributions and grants include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported as general revenues.

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

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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

#### **Fund Financial Statements**

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

#### Governmental Funds

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

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

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

The City reports the following major governmental funds:

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

The Law Enforcement Special Revenue Fund accounts for all financial activity related to the City's Law Enforcement Services. The fund's major source of revenue is a special assessment tax.



# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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

#### Fiduciary Funds

Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Position. The fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. Agency funds, a type of Fiduciary fund, have no measurement focus but utilize the full accrual method of accounting to account for assets, liabilities and deferred inflows and outflows of resources. Since these accounts are being managed for the benefit of a third party, they are not incorporated into the government-wide statements.

The City reports the following fiduciary fund:

The Performance Surety Agency Fund: Acts as an Agent for funds deposited by homeowners to assure any repairs and improvements needed to City streets as a result of construction

#### **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, which include property, plant and equipment, are stated at cost. Donated assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial cost of more than \$1,000 and an estimated useful life greater than one year. 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

#### **E. Deferred Inflows/Outflows of Resources**

In addition to assets, the statement of financial position or balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position or balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**F. Interfund Transactions**

With City Manager 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.

**G. 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.

**H. Compensated Absences**

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

**I. Use of 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.

**J. 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, 2016

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

#### K. 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, 2016.

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

*Committed:* This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2016.

*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.

#### L. 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, 2016

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

#### **M. Fair Value Measurements:**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

#### **N. Implementation of New GASB Pronouncements:**

**GASB Statement No. 72** - In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City has implemented the provisions of this Statement as of July 1, 2015.

**GASB Statement No. 76** - In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. The City has implemented the provisions of this Statement as of July 1, 2015.

**GASB Statement No. 79** - In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The City has implemented the provisions of this Statement as of July 1, 2015.

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 3 – CASH AND INVESTMENTS*

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

#### **Summary of Deposits and Investments**

Cash and cash equivalents as of June 30, 2016, consist of the following:

Cash on hand	\$ 120
Cash with financial institutions	980,334
Investments	6,354,747
Total Deposits and Investments	<u>\$ 7,335,201</u>

#### **Cash and Investments**

Cash and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 7,308,085
Fiduciary funds:	
Cash and investments	27,116
Total Cash and Investments	<u>\$ 7,335,201</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, 2016.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**General Authorizations**

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

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

**Interest Rate Risk**

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

As of June 30, 2016, the City had the following investments. All investments are in the State’s investment pool.

Investment Type	Fair Value	Average Maturity
State Investment Pool	\$ 6,354,747	167

**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, 2016**

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**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Custodial Credit Risk - Deposits**

This is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2016, the City's bank balance of \$980,334, with a statement balance of \$1,033,437, 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.

See note #5 for disclosures related to fair value measurements.

**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	\$ -	\$ 531,432
Special Revenue Funds:		
Law Enforcement Fund	531,432	-
Total	<u>\$ 531,432</u>	<u>\$ 531,432</u>

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 5 – FAIR VALUE MEASUREMENTS**

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the City has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the City's own data. The City should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the City are not available to other market participants.

Uncategorized - Investments in the Local Agency Investment Funds/State Investment Pool are not measured using the input levels above because the City's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The City's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 1 Inputs	Level 1 Inputs	
Local Agency Investment Fund	\$ 6,354,747	\$ -	\$ -	\$ -	\$ 6,354,747

**NOTE 6 – CAPITAL ASSETS**

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



**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 – CAPITAL ASSETS**

The following table presents the capital assets activity for the year ended June 30, 2016.

	Beginning Balance	Additions	Transfers/ Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 119,888	\$ -	\$ -	\$ 119,888
Total Capital Assets Not Being Depreciated	<u>119,888</u>	<u>-</u>	<u>-</u>	<u>119,888</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	409,663	-	-	409,663
Computer equipment	51,428	-	-	51,428
Office equipment	24,619	-	-	24,619
Total Capital Assets Being Depreciated	<u>485,710</u>	<u>-</u>	<u>-</u>	<u>485,710</u>
Less Accumulated Depreciation For:				
Buildings and improvements	190,422	8,125	-	198,547
Computer equipment	33,785	4,047	-	37,832
Office equipment	2,302	3,262	-	5,564
Total Accumulated Depreciation	<u>226,509</u>	<u>15,434</u>	<u>-</u>	<u>241,943</u>
Total Capital Assets, Being Depreciated, Net	<u>259,201</u>	<u>(15,434)</u>	<u>-</u>	<u>243,767</u>
Governmental Activities Capital Assets, Net	<u>\$ 379,089</u>	<u>\$ (15,434)</u>	<u>\$ -</u>	<u>\$ 363,655</u>

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

General government	<u>\$ 15,434</u>
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**NOTE 7 – PENSION PLAN**

**PERS Plan Description**

**A. General Information about the Pension Plans**

**Plan Descriptions** – All qualified permanent employees are eligible to participate in the City’s Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and may be amended by City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 7 – PENSION PLAN**

**Benefits Provided** – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees.

The Plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<b>Miscellaneous</b>	
	Prior to January 1, 2013	Starting January 1, 2013
Hire Date		
Formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of annual salary	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.003%	6.237%

**Contributions** – Section 20814(c) of the California Public Employees’ Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for both Plans are determined annual on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rates of employees.

For the year ended June 30, 2016, the contributions to the Plan were \$121,561.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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*NOTE 7 – PENSION PLAN (Continued)*

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2016, the City’s reported net pension liability for its proportionate share of the pension liability of the Plan is as follows:

Proportionate Share of Net Pension Liability	<u>Miscellaneous</u> \$ 748,563
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The City’s net pension liability for the Plan is measured as the proportionate share of the collective net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard actuarial update procedures. The City’s proportion of the collective net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 is as follows:

Proportion - June 30, 2014	<u>Total</u> 0.01204%
Proportion - June 30, 2015	0.01091%
Change - Increase (Decrease)	<u>0.00114%</u>

At the year ended June 30, 2016, the City recognized pension expense of \$118,046. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 121,561	\$ -
Differences between actual and expected experience	7,133	
Changes in assumptions	-	(67,481)
Net differences between projected and actual earnings on plan investments	-	(33,829)
Adjustment due to differences in proportion	-	(5,946)
Total	<u>\$ 128,694</u>	<u>\$ (107,256)</u>

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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*NOTE 7 – PENSION PLAN (Continued)*

The amount of \$121,561 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year ended June 30</u>		
2016	\$	(31,401)
2017		(31,811)
2018		(28,454)
2019		<u>(8,457)</u>
	<u>\$</u>	<u>(100,123)</u>

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return <sup>(1)</sup>	7.65%
Mortality <sup>(2)</sup>	Derived using CalPERS membership for data for all funds

(1) Net of pension plan investment and administrative expenses; includes inflation.

(2) The mortality table used for Miscellaneous and Safety Plans were developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale AA. For more details on this table, please refer to the CalPERS 2010 experience study report available on CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was increased from 7.50 percent to 7.65 percent in 2015. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

*NOTE 7 – PENSION PLAN (Continued)*

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates are net of administrative expenses:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1-10 <sup>(a)</sup></u>	<u>Long-Term Expected Real Rate of Return <sup>(b)</sup></u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100.0%</u>		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** – The following presents the net pension liability of the City Miscellaneous Plan, calculated using the discount rate for the Plan, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	\$ 1,222,263
Current Discount Rate	7.65%
Net Pension Liability	\$ 748,563
1% Increase	8.65%
Net Pension Liability	\$ 358,997

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

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 8 – 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 10 for details.

**NOTE 9 - NATURE AND PURPOSE OF REPORTED FUND BALANCE CLASSIFICATIONS**

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

	General Fund	Law Enforcement Fund	Non-Major Governmental Funds			Total
			Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	
<b>Fund Balances:</b>						
<b>Restricted for:</b>						
Capital projects	\$ -	\$ -	\$ 290,707	\$ -	\$ -	\$ 371,672
Road impact fees	460,125	99	-	7,272	1,379	468,875
<b>Total Restricted:</b>	<u>460,125</u>	<u>99</u>	<u>290,707</u>	<u>7,272</u>	<u>1,379</u>	<u>840,547</u>
<b>Assigned for:</b>						
Traffic Safety	178,451	-	-	-	-	178,451
Post Office	55	-	-	-	-	55
<b>Total Assigned:</b>	<u>178,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,506</u>
<b>Unassigned:</b>	<u>6,267,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,267,866</u>
<b>Total fund balances</b>	<u>\$ 6,906,497</u>	<u>\$ 99</u>	<u>\$ 290,707</u>	<u>\$ 7,272</u>	<u>\$ 1,379</u>	<u>\$ 7,286,919</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, 2016.

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, 2016.

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, 2016

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### *NOTE 9 - 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 10 – RISK MANAGEMENT*

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City has joined Bay Cities Joint Powers Insurance Authority (BCJPIA). BCJPIA is a public entity risk pool that is currently operating a common risk management agency with nineteen members. Annual premiums are paid by members and are adjusted retrospectively to cover costs. Excess premiums, if any, are returned to the members based on an equity allocation five years after the close of the program year. Member deductibles range from \$5,000 to \$350,000 with an Authority self-insured retention of \$1,000,000. The City's self-insured retention is \$5,000. The Authority has purchased excess insurance up to \$29,000,000 from a private company to provide coverage for losses and claims in excess of the Authority's stated limits.

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

### *NOTE 11 – PARTICIPATION IN JOINT POWERS AUTHORITIES*

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

#### **A. Description of WVSWMA**

This program is a joint venture with the cities of Los Gatos, Campbell, Monte Sereno, and Saratoga to provide a coordinated Solid Waste Management Authority to their respective cities in order to meet State and Federal requirements, as well as local objectives regarding solid waste. Each city has a representative on the Rate Review Committee of the Program, which makes recommendations regarding budgets, policies, and procedures to the city managers of the member cities. The Authority is administered by a Board of Directors consisting of four Directors, one each appointed by the Legislative Body of the cities of Campbell, Los Gatos, Monte Sereno and Saratoga. Costs of the programs are allocated based on population with Monte Sereno's portion of the budget equaling 2.7 percent for the year.

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 11 – PARTICIPATION IN JOINT POWERS AUTHORITIES (Continued)*

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

This program is a joint venture with the cities of Campbell, Santa Clara, Mountain View, and Monte Sereno to own, manage, operate and maintain the Animal Control Services in the area in order to provide the residents with more efficient and economical animal control services. The Authority is administered by a Board of Directors consisting of four Directors, one each appointed by the Legislative Body of the cities of Santa Clara, Campbell, Mountain View, and Monte Sereno. Costs of the program are allocated in proportions to the population of the member agency, the amount of licensed animals owned or kept by residents of the member agency, and the total number of days that an animal from each member agency is held at the current animal shelter facility. During the current year Monte Sereno's proportional share of those costs was 1.67% and is expected to be 1.65% for the fiscal year 2016-2017.

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

### *NOTE 12 – NEW GASB PRONOUNCEMENTS*

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

- GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The City has not yet determined its effect on the financial statements.
- GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, statement 43, and statement No. 50, *Pension Disclosures*. The provisions in statement 74 are effective for fiscal years beginning after June 15, 2016. The City has not yet determined its effect on the financial statements.
- GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in statement 75 are effective for fiscal years beginning after June 15, 2017. The City has not yet determined its effect on the financial statements.



# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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### *NOTE 12 – NEW GASB PRONOUNCEMENTS (Continued)*

- GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is effective for reporting periods beginning after December 15, 2015. The City has not yet determined its effect on the financial statements.
- GASB Statement No. 78 – In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This statement is effective for reporting periods beginning after December 15, 2015. The City has not yet determined its effect on the financial statements.
- GASB Statement No. 80 – In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment to GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City has not determined its effect on the financial statements.
- GASB Statement No. 81 – In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The City has not determined its effect on the financial statements.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 12 – NEW GASB PRONOUNCEMENTS (Continued)**

- GASB Statement No. 82 – In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The City has not determined its effect on the financial statements.

**NOTE 13 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

Expenditure	Budgeted Amount Original/Final	Actual Amount	Negative Variance with Final Budget
General Fund:			
Administration General Government	\$ 1,880,128	\$ 1,940,741	\$ (60,613)
Public safety	10,000	25,986	(15,986)
Community development	35,000	45,314	(10,314)
Law Enforcement Fund:			
Public Safety	711,574	712,800	(1,226)
Capital outlay	100,000	122,117	(22,117)

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS**

**Postemployment Healthcare Plan (OPEB)**

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

*Funding Policy* – The City’s annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years on a closed basis. The current ARC rate is 14.3% of the annual covered payroll, based on the most recent actuarial report dated June 30, 2015. The plan members receiving benefits currently do not make contributions.

*Annual OPEB Costs* – For fiscal year ended June 30, 2016, the City’s annual OPEB cost (expenses) was \$91,400, and the ARC was \$94,000. The City did not make any contributions to the trust during the year ended June 30, 2016. The following table, based on the City’s actuarial valuation as of June 30, 2016, shows the components of the City’s annual OPEB cost for FY 2015/16 and changes in the City’s Net OPEB obligation:

Annual required contribution	\$	94,000
Interest on net OPEB liability		14,500
Net OPEB liability adjustment		(17,100)
Annual OPEB cost for FY 2016		<u>91,400</u>
Total payments made towards OPEB ARC in FY 2015/16		<u>-</u>
OPEB liability (asset)		91,400
OPEB liability as of 6/30/2015		364,200
OPEB liability as of 6/30/2016	\$	<u><u>455,600</u></u>

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, 2016 are as follows:

Trend Information				
Fiscal Years Ending	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligations (Asset)
6/30/2014	\$ 85,600	\$ -	0%	\$ 272,600
6/30/2015	91,600	-	0%	364,200
6/30/2016	91,400	-	0%	455,600

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**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, 2015, the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$	668,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	<u>\$</u>	<u>668,000</u>
Funded ratio (to actuarial value of plan assets)		0%
Covered payroll (active plan members)	\$	657,000
UAAL as a percentage of covered payroll		101.67%

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, 2015
Actuarial cost method	Entry age, Normal Cost
Amortization method	Level percentage of payroll - closed basis
Amortization period	24 years
Asset valuation method	Market value of assets
Investment rate of return (funded)	4.00%
Salary increase	3.25%
Inflation	3.00%
Healthcare cost trend rate	8.0% initial; 5.0% ultimate

***REQUIRED SUPPLEMENTARY INFORMATION***

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

**Schedule of Revenues, Expenditures and Changes  
in Fund Balance – Budget and Actual  
General Fund**

	<u>Budgeted Amounts</u> <u>Original/Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES</b>			
Property tax	\$ 1,268,967	\$ 1,513,408	\$ 244,441
Sales tax	10,000	26,825	16,825
Franchise fee	272,000	301,421	29,421
Real property transfer tax	50,000	73,787	23,787
Licenses and permits	467,000	575,305	108,305
Fines and penalties	12,000	11,171	(829)
Investment earnings	12,000	26,788	14,788
Intergovernmental \ Other agencies	8,400	30,995	22,595
Other revenue	176,200	145,028	(31,172)
Total Revenues	<u>2,276,567</u>	<u>2,704,728</u>	<u>428,161</u>
<b>EXPENDITURES</b>			
Current:			
Administration General Government	1,880,128	1,940,739	(60,611)
Public safety	10,000	25,986	(15,986)
Community development	35,000	45,314	(10,314)
Total Expenditures	<u>1,925,128</u>	<u>2,012,039</u>	<u>(86,911)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>351,439</u>	<u>692,689</u>	<u>341,250</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(531,432)	(531,432)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(531,432)</u>	<u>(531,432)</u>
Net Change in Fund Balance	351,439	161,257	(190,182)
Fund Balance, Beginning of Year	<u>6,745,240</u>	<u>6,745,240</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 7,096,679</u>	<u>\$ 6,906,497</u>	<u>\$ (190,182)</u>

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

**Schedule of Revenues, Expenditures and Changes  
in Fund Balance – Budget and Actual  
Law Enforcement Fund**

	<u>Budgeted Amounts</u> <u>Original/Final</u>	<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Property tax and special assessment taxes	\$ 183,150	\$ 181,467	\$ (1,683)
Intergovernmental \ Other agencies	100,000	122,119	22,119
Total Revenues	<u>283,150</u>	<u>303,586</u>	<u>20,436</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	711,574	712,800	(1,226)
Capital outlay	100,000	122,119	(22,119)
Total Expenditures	<u>811,574</u>	<u>834,919</u>	<u>(23,345)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(528,424)</u>	<u>(531,333)</u>	<u>(2,909)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	531,432	531,432
Net Change in Fund Balance	(528,424)	99	528,523
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	<u>\$ (528,424)</u>	<u>\$ 99</u>	<u>\$ 528,523</u>

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Schedule of Funding Progress for  
Other Postemployment  
Benefits Plan**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2015	\$ -	\$ 668,000	\$ 668,000	0.0%	\$ 657,000	101.67%
July 1, 2012	-	725,400	725,400	0.0%	704,000	103.04%



**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Miscellaneous Plan  
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
As of June 30, 2016  
Last 10 Years \*\*  
Schedule of Proportionate Share of the Net Pension Liability**

	<u>2016</u>	<u>2015</u>
Plan's proportion of the Net Pension Liability (Asset)	0.01091%	0.01204%
Plan's proportion share of the Net Pension Liability (Asset)	\$ 748,563	\$ 749,395
Plan's Covered-Employee Payroll	\$ 723,056	\$ 713,447
Plan's proportion share of the Net Pension Liability (Asset) as a percentage of its Covered-Employee payroll	103.53%	105.04%
Plan's Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	80.28%	79.82%

\*\* Fiscal year 2015 was the 1st year of implementation.

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Miscellaneous Plan  
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
As of June 30, 2016  
Last 10 Years \*\*  
Schedule of Contributions**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 121,561	\$ 111,286
Contributions in relation to the actuarially determined contribution	<u>(121,561)</u>	<u>(111,286)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 673,336	\$ 723,056
Contributions as a percentage of covered-employee payroll	18.05%	15.39%

\*\* Fiscal year 2015 was the 1st year of implementation.

***SUPPLEMENTARY INFORMATION***

**CITY OF MONTE SERENO CITY OF MONTE SERENO**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016**

	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non-major Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 7,272	\$ 1,379	\$ 71,106	\$ 372,296
Receivables:				
Other	-	-	9,859	9,859
Total Assets	<u>\$ 7,272</u>	<u>\$ 1,379</u>	<u>\$ 80,965</u>	<u>\$ 382,155</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,832
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,832</u>
<b>FUND BALANCES</b>				
Restricted	<u>7,272</u>	<u>1,379</u>	<u>80,965</u>	<u>380,323</u>
Total Fund Balances	<u>7,272</u>	<u>1,379</u>	<u>80,965</u>	<u>380,323</u>
Total Liabilities and Fund Balances	<u>\$ 7,272</u>	<u>\$ 1,379</u>	<u>\$ 80,965</u>	<u>\$ 382,155</u>

**CITY OF MONTE SERENO CITY OF MONTE SERENO**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non-major Governmental Funds
<b>REVENUES</b>					
Property tax	\$ -	\$ 2,235	\$ 1,190	\$ -	\$ 3,425
Gas tax	80,517	-	-	-	80,517
Investment Earnings	475	-	-	-	475
Current service charges	-	-	-	15,540	15,540
Other revenue	-	-	-	39,250	39,250
<b>Total Revenues</b>	<b>80,992</b>	<b>2,235</b>	<b>1,190</b>	<b>54,790</b>	<b>139,207</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,424	-	-	-	1,424
Public works and facilities	13,402	2,474	1,380	28,628	45,884
Capital outlay	-	-	-	32,219	32,219
<b>Total Expenditures</b>	<b>14,826</b>	<b>2,474</b>	<b>1,380</b>	<b>60,847</b>	<b>79,527</b>
Excess (Deficiency) of Revenues Over Expenditures	66,166	(239)	(190)	(6,057)	59,680
Net Change in Fund Balances	66,166	(239)	(190)	(6,057)	59,680
Fund Balances, Beginning of Year	224,541	7,511	1,569	87,022	320,643
Fund Balances, End of Year	\$ 290,707	\$ 7,272	\$ 1,379	\$ 80,965	\$ 380,323



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 13, 2017. Our report included an emphasis of matter paragraph regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72 *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, as of July 1, 2014.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California

March 13, 2017



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

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

We have performed the procedures enumerated below to the Appropriations Limit worksheet of the City of Monte Sereno, for the year ended June 30, 2017. These procedures, which were agreed to by the City of Monte Sereno, as suggested by the League of California Cities (as presented in the League publication entitled Article XIII B Appropriations Limitation Uniform Guidelines) were performed solely to assist the City of Monte Sereno, California in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City of Monte Sereno management is responsible for the Appropriations limit worksheet.

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

The procedures performed and our findings were as follows:

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

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

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

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

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

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



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

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

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

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

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

Pleasanton, California  
March 13, 2017