

Financial Statements  
For the Fiscal Year  
Ended June 30, 2022  
**City of Monte Sereno**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council  
City of Monte Sereno, California

### Report on the Audit of the Financial Statements

#### *Opinions*

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 (City), California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

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 as of June 30, 2022, 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.

#### *Basis for Opinions*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirement relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### ***Supplementary 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 accompanying Supplementary Information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.

*Maze + Associates*

Pleasant Hill, California  
June 7, 2023

The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2022 for the City of Monte Sereno. The Management Discussion and Analysis is to be read in conjunction with the Basic Financial Statements.

### **FISCAL YEAR 2021-2022 FINANCIAL HIGHLIGHTS**

- The City's total net position was \$5,616,493, which increased by \$224,258 from the prior year's net position of \$5,392,235.
- Total City total revenues were \$5,176,569, while total expenses were \$4,930,131. Total revenues in the prior year were \$4,822,894 and total expenses were \$4,581,585. The increase in revenues was due to increase in property taxes.
- The City's Unrestricted Net Position is \$4,812,674, which is available for ongoing operations as well as other capital needs.

### **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, 2022.

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.

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 generally accepted accounting principles. 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.

### **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 pension schedules and retiree health benefits schedules 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.

Cash and investments decreased by \$403,038 from \$5,165,026 in the prior year to \$5,791,988 in the current year.

Receivables increased by \$55,852 to \$160,701. The change was mainly due to the SB-2 Planning Grants Program received.

The City's pension liabilities decreased by \$666,025 to \$0 balance. The current year change is due to the pension plan net balance and a change in the actuarial assumptions.

Total OPEB liabilities decreased by \$58,940 to \$705,897. Prior year was \$764,837 due to changes in the actuarial assumptions.

\$291,048 or 5.2% of the City's net investment in capital assets is invested in capital assets compared to \$291,274 or 5.4% in the prior year (e.g., land, buildings, general government infrastructure, equipment, etc.). There were no major capital asset additions in the current year and the decrease was related to depreciation.

\$4,812,674 or 85.7% of the City's net position is unrestricted compared to \$4,773,642 or 88.5% in the prior year. The unrestricted net position may be used to fulfill ongoing obligations to the City residents and creditors.

\$512,771 or 9.1% of the City's net position is subject to external restriction on how they may be used compared to \$327,319 or 6.1% in the prior year. These restricted assets will be used primarily for capital projects and public safety improvements.

The following table shows a condensed statement of net position for the City for the current and the prior year.

**Statement of Net Position  
Table 1**

	Governmental Activities	
	2022	2021
<b>ASSETS</b>		
Cash and investments	\$5,791,988	\$6,195,026
Receivables		
Taxes	196	19,463
Other	160,505	85,386
Net pension asset	867,343	0
Capital assets		
Land and construction in progress	119,888	119,888
Depreciable capital assets, net	171,160	171,386
Total assets	7,111,080	6,591,149
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to OPEB	139,227	177,781
Deferred outflows of resources related to pensions	528,200	1,005,367
Total deferred outflows of resources	667,427	1,183,148
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	1,240,250	228,051
Compensated absences payable - current	34,294	34,294
Compensated absences payable - noncurrent	0	
Total other postemployment benefits liability	705,897	764,837
Net pension liabilities		666,025
Total liabilities	1,980,441	1,693,207
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to OPEB	550,783	503,946
Deferred inflows of resources related to pensions	(369,210)	184,909
Total deferred inflows of resources	181,573	688,855
<b>NET POSITION (Note 8)</b>		
Net investment in capital assets	291,048	291,274
Restricted for:		
Capital projects	422,247	318,734
Road and streetlight projects	90,524	8,585
Total restricted net position	512,771	327,319
Unrestricted net position	4,812,674	4,773,642
Total net position	\$5,616,493	\$5,392,235

The City's charges for services decreased by \$10,379 to \$1,014,803. Prior year was \$1,025,382. The current year decreased due mainly to a softening of planning fee and license and permit fee activities.

Property taxes increased by \$132,386 to \$2,519,082. Prior year was \$2,386,696. The current year increase was due to an increase in the assessed valuation for properties within the City.

Total expenditures in FY 2022 was \$4,930,131, \$348,904 lower versus prior year. General government expenses decreased by \$730,670 to \$1,910,742; Public Safety increased by \$1,241,755 to \$2,462,611, Public Works decreased \$156,383 to \$519,289 and Community Development decreased by \$5,798 to \$37,489.

**Statement of Net Position**  
**Table 2**

	Governmental Activities	
	2022	2021
Revenues		
Program revenues		
Charges for services	\$1,014,803	\$1,025,382
Operating contributions and grants	579,424	357,120
General revenues		
Property taxes	2,519,082	2,386,696
Other taxes	689,375	524,069
Other	373,885	529,627
Total revenues	<u>5,176,569</u>	<u>4,822,894</u>
Expenses		
General government	1,910,742	2,641,412
Public safety	2,462,611	1,220,856
Public works	519,289	675,672
Community development	37,489	43,287
Total expenses	<u>4,930,131</u>	<u>4,581,227</u>
Changes in Net Position	246,438	241,667
Net Position Beginning of year	<u>5,370,055</u>	<u>5,128,388</u>
Net Position End of year	<u><u>\$5,616,493</u></u>	<u><u>\$5,370,055</u></u>

### Major Funds General Fund

General Fund Revenues - Revenues for the year ended June 30, 2022, increased by \$141,950 or 4.1% to \$3,582,342 from the prior fiscal year \$3,440,392.

- Property taxes increased \$132,386 or 5.5% from the previous fiscal year to \$2,519,082.
- Other Taxes increased \$165,306 or 31.5% from the previous fiscal to \$689,375.
- Other decreased \$155,742 or -29.4% from the previous fiscal to \$373,885.

General Fund Expenditures – General governmental expenditures including transfers out for the year ended June 30, 2022 increased \$348,904 or 7.6% compared to the prior fiscal year to \$4,930,131.

### Law Enforcement Fund

Law Enforcement Fund Revenues, including transfers in for the year ended June 30, 2022, were higher \$241,389 compared to the prior year. The transfer of \$241k Law Enforcement Funds will be made in FY 2023.

Law Enforcement Fund Expenditures, for the year ended June 30, 2022, were comparable to the prior year and in line with the annual budget figures as expected.

### **Gas Tax Fund**

Gas Tax Fund Revenues, including transfers in for the year ended June 30, 2022, were higher by \$11,483 compared to the prior year primarily related to higher SB-1 Gas Tax.

Gas Tax Fund Expenditures for the year ended June 30, 2022 has decreased by \$635,812 compared to the prior fiscal year due to the expansion in the street maintenance projects.

### **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 above the budgeted amounts by \$322,044. The large variance was mainly in the property taxes (\$244,982 surplus over the estimate) and the licenses and permits (\$290,046 surplus over the estimate) offset by not using a secured Grants for Annex Building Project (\$198,600).

### **Capital Assets**

The City's investment in capital assets, net of accumulated depreciation, as of June 30, 2022, amounts to \$291,274. This figure does not include City infrastructure such as roads and bridges. These figures may be included in future year's financial statements. There were no significant additions to capital assets in the current fiscal year.

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

### **Long - Term Liabilities**

The City's long-term liabilities consist solely of compensated absences and employee benefits liabilities. The compensated absences in the amount of \$34,294 remained flat to prior year. The other postemployment benefits liabilities and net pension liabilities in the amount of \$1,430,862 have decreased by \$724,965 or 50.7% compared to the prior year. The decrease is mainly attributed to the decrease in pension liabilities.

### **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.

The City Council of Monte Sereno hosted their annual goal setting session on June 1, 2021. Council adopted five goals to develop a work plan for FY 2021 -2022. Those five adopted goals were captured by artist Melinda Walker in this artistic rendition of the meeting minutes.



Melinda Walker - OneSquigglyLine.com

- Quality Public Service
- Community Character
- Enhanced Mobility
- Community Safety
- Environmental Sustainability

### 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.

CITY OF MONTE SERENO  
STATEMENT OF NET POSITION  
JUNE 30, 2022

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$5,791,988
Receivables	
Taxes	196
Other	160,505
Net pension asset	867,343
Capital assets	
Land	119,888
Depreciable capital assets, net	171,160
Total assets	7,111,080
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to OPEB	139,227
Deferred outflows of resources related to pensions	528,200
Total deferred outflows of resources	667,427
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	1,240,250
Compensated absences payable - current	34,294
Total other postemployment benefits liability	705,897
Total liabilities	1,980,441
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to OPEB	550,783
Deferred inflows of resources related to pensions	(369,210)
Total deferred inflows of resources	181,573
<b>NET POSITION (Note 8)</b>	
Net investment in capital assets	291,048
Restricted for:	
Capital projects	422,247
Road and streetlight projects	90,524
Total restricted net position	512,771
Unrestricted net position	4,812,674
Total net position	\$5,616,493

See accompanying notes to financial statements

CITY OF MONTE SERENO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$1,910,742	\$1,003,513		(\$907,229)
Public safety	2,462,611	11,290		(2,451,321)
Public works	541,469		\$579,424	37,955
Community development	37,489			(37,489)
	<u>\$4,952,311</u>	<u>\$1,014,803</u>	<u>\$579,424</u>	<u>(3,358,084)</u>
General revenues:				
Taxes:				
Property tax				2,519,082
Sales tax				12,936
Gas tax				154,815
Franchise tax				323,549
Real property transfer tax				198,075
Unrestricted investment earnings				
Other revenue				373,885
				<u>3,582,342</u>
Change in Net Position				224,258
Net Position - Beginning				<u>5,392,235</u>
Net Position - Ending				<u>\$5,616,493</u>

See accompanying notes to financial statements

CITY OF MONTE SERENO  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2022

	General	Law Enforcement Fund	Gas Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$5,076,698	\$241,391	\$373,780	\$100,119	\$5,791,988
Receivables					
Taxes	196				196
Other	160,000		500	5	160,505
Total Assets	<u>\$5,236,894</u>	<u>\$241,391</u>	<u>\$374,280</u>	<u>\$100,124</u>	<u>\$5,952,689</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$287,144	\$202,847		\$177	\$490,168
Total Liabilities	<u>287,144</u>	<u>202,847</u>		<u>177</u>	<u>490,168</u>
<b>FUND BALANCES</b>					
Fund balance (Note 9):					
Restricted		38,544	\$374,280	99,947	512,771
Unassigned	4,949,750				4,949,750
TOTAL FUND BALANCES	<u>4,949,750</u>	<u>38,544</u>	<u>374,280</u>	<u>99,947</u>	<u>5,462,521</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$5,236,894</u>	<u>\$241,391</u>	<u>\$374,280</u>	<u>\$100,124</u>	<u>\$5,952,689</u>

See accompanying notes to financial statements

CITY OF MONTE SERENO  
 Reconciliation of the  
 GOVERNMENTAL FUNDS BALANCE SHEET  
 with the  
 STATEMENT OF NET POSITION  
 JUNE 30, 2022

Fund Balance - Total Governmental Funds \$5,462,521

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:

CAPITAL ASSETS TRANSACTIONS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental funds. 291,048

LONG TERM ASSETS, LIABILITIES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The assets, deferred outflows of resources, liabilities and deferred inflows of resources below are not due and payable in the current period and therefore are not reported in the Funds:

Compensated absences	(34,294)
Accounts payable and accrued liabilities	(750,082)
Net pension liability (asset)	867,343
Total other post employment liability	(705,897)
Deferred outflows of resources related to pensions	528,200
Deferred outflows of resources related to OPEB	139,227
Deferred inflows of resources related to pensions	369,210
Deferred inflows of resources related to OPEB	(550,783)
	(550,783)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$5,616,493

See accompanying notes to financial statements

CITY OF MONTE SERENO  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2022

	General	Law Enforcement Fund	Gas Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property tax	\$2,325,200	\$191,390		\$2,492	\$2,519,082
Sales tax	12,936				12,936
Gas Tax			\$154,815		154,815
Franchise fee	323,549				323,549
Real property transfer tax	198,075				198,075
Licenses and permits	1,001,062				1,001,062
Fines and penalties	2,451				2,451
Investment earnings	9,809		1,481		11,290
Intergovernmental/ other agencies	418,139	161,285			579,424
Other revenue	353,711			20,174	373,885
<b>Total Revenues</b>	<b>4,644,932</b>	<b>352,675</b>	<b>156,296</b>	<b>22,666</b>	<b>5,176,569</b>
EXPENDITURES					
Current:					
General government	2,741,162		2,576		2,743,738
Public safety	1,293,220	1,169,391			2,462,611
Public works	367,386		138,779	35,304	541,469
Community development	37,489				37,489
Capital outlay				565	565
<b>Total Expenditures</b>	<b>4,439,257</b>	<b>1,169,391</b>	<b>141,355</b>	<b>35,869</b>	<b>5,785,872</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	205,675	(816,716)	14,941	(13,203)	(609,303)
OTHER FINANCING SOURCES (USES)					
Transfers in		855,260	133,380	11,790	1,000,430
Transfers out	(1,000,430)				(1,000,430)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,000,430)</b>	<b>855,260</b>	<b>133,380</b>	<b>11,790</b>	
NET CHANGE IN FUND BALANCES	(794,755)	38,544	148,321	(1,413)	(609,303)
FUND BALANCES AT BEGINNING OF PERIOD	5,744,505		225,959	101,360	6,071,824
FUND BALANCES AT END OF PERIOD	\$4,949,750	\$38,544	\$374,280	\$99,947	\$5,462,521

See accompanying notes to financial statements

CITY OF MONTE SERENO  
 Reconciliation of the  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 with the  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2022

Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$587,123)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay and improvement expenditures are added back to fund balance	565
Depreciation expense is deducted from fund balance	(10,015)
Retirements are deducted from the fund balance	9,224

NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Compensated absences	
Accounts payable and accrued liabilities	(750,082)
Net pension liability and deferred outflows/inflows of resources related to pensions	1,610,320
Net OPEB liability and deferred outflows/inflows of resources related to OPEB	(26,451)
	(26,451)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$246,438
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See accompanying notes to financial statements

**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.

**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.

**Basis of Presentation**

**Government Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Fund Financial Statements**

The fund financial statements provide information about the City's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those 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.

The Gas Tax Special Revenue Fund accounts for tax rate per gallon levied by the State of California on all gasoline purchases are allocated to cities throughout the State. These funds are restricted to expenditure for transit and street-related purposes.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available generally if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, transient occupancy taxes, utility user taxes, property transfer taxes, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Fines, licenses, use of property, and permit revenues are not susceptible to accrual because they generally are not measurable until received in cash. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Capital Assets**

Capital assets, which include property, plant and equipment, are stated at cost. Donated assets are recorded at their estimated acquisition 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

**Deferred Inflows/Outflows of Resources**

In addition to assets, the statement of net position 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net 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.

**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.

**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>
Lien dates	January 1
Levy dates	July 1
Due dates	50% on November 1 and February 1
Delinquent as of	December 10 and April 10

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

**Compensated Absences**

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

**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.

**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.”

**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, 2022.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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 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, 2022.

**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.

**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.

**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.

**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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- 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.

**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, 2022, consist of the following at fair value:

Cash on hand	\$121
Cash with financial institutions	757,897
State Investment Pool	<u>5,033,970</u>
Total deposits and investments	<u><u>\$5,791,988</u></u>

**Policies and Practices**

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

The City’s investments were in compliance with the above provisions as of and for the year ended June 30, 2022.

**General Authorizations**

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

**NOTE 3 – CASH AND INVESTMENTS - Continued**

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	\$65 Million

**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, 2022, the City had the following investments. All investments are in the State’s investment pool.

State Investment Pool	<u>Fair Value</u> <u>\$5,033,970</u>	<u>Average Maturity</u> <u>311</u>
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**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.

**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, 2022, the City's bank balance of \$757,897 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.

**NOTE 3 – CASH AND INVESTMENTS - Continued**

**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. The pool is not registered with the Securities and Exchange Commission (SEC) and is not rated.

The City recognizes the fair value measurement of its investments on a recurring basis, 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: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. 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.

**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.

	Transfers In	Transfers Out
General Fund		\$1,000,430
<i>Special Revenue Funds:</i>		
Law Enforcement Fund	\$855,260	
Gas Tax Fund	133,380	
Nonmajor Fund	11,790	
Total	\$1,000,430	\$1,000,430

**NOTE 5 – CAPITAL ASSETS**

The City reports all capital assets, in the Government-Wide Statement of Net Position. The City reports infrastructure using the basic approach.

The following table presents the capital assets activity for the year ended June 30, 2022.

	Balance at June 30, 2021	Additions	Adjustments	Balance at June 30, 2022
Capital assets, not being depreciated:				
Land	\$119,888			\$119,888
Total capital assets not being depreciated	<u>119,888</u>			<u>119,888</u>
Capital assets being depreciated:				
Buildings Improvements	409,663			409,663
Computer Equipment	46,395			46,395
Office Equipment	34,622	\$4,941		39,563
Total capital assets being depreciated	<u>490,680</u>	<u>4,941</u>		<u>495,621</u>
Less accumulated depreciation for:				
Buildings Improvements	239,037	\$8,125		247,162
Computer Equipment	46,669	994	\$2,262	49,925
Office Equipment	33,588	896	2,586	37,070
Total accumulated depreciation	<u>319,294</u>	<u>10,015</u>	<u>4,848</u>	<u>334,157</u>
Net capital assets being depreciated	<u>171,386</u>	<u>14,956</u>	<u>4,848</u>	<u>171,160</u>
Total capital assets, net	<u>\$291,274</u>	<u>\$14,956</u>	<u>\$4,848</u>	<u>\$291,048</u>

Depreciation expense was charged to the general government function.

**NOTE 6 – PENSION PLAN**

**General Information about the Pension Plans**

Plan Description – 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. [www.calpers.ca.gov](http://www.calpers.ca.gov).

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 52 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 California Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2022, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	Starting January 1, 2013
Hire date		
Formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Minimum retirement age	50	52
Required employee contribution rates	7.00%	6.75%
Required employer contribution rates	10.340%	7.590%

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, 2022, the contributions to the Plan were \$82,134.

**NOTE 6 – PENSION PLAN - Continued**

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

As of June 30, 2022, the City’s reported net pension asset for its proportionate share of the pension liability of the Plan is as follows:

	Miscellaneous
Proportionate Share of Net Pension Asset	\$867,343

The City’s net pension asset for the Plan is measured as the proportionate share of the collective net pension asset. The net pension asset of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard actuarial update procedures. The City’s proportion of the collective net pension asset 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 asset for each Miscellaneous Plans as of June 30, 2021 is as follows:

	Miscellaneous Plans
Proportion - June 30, 2020	0.01578%
Proportion - June 30, 2021	0.04568%
Change - Increase (Decrease)	0.02990%

In the current fiscal year, the City recognized pension revenue of \$1,356,475. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$82,134	
Differences between actual and expected experience	(97,263)	
Changes in assumptions	-	
Difference between proportional and actual contributions	397,897	(\$107,676)
Adjustment due to differences in proportions	145,432	(280,259)
Net differences between projected and actual earnings on plan investments		\$757,145
Total	\$528,200	\$369,210

**NOTE 6 – PENSION PLAN - Continued**

The amount of \$82,134 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, 2023. 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>Years Ending June 30</u>	
2023	\$218,081
2024	190,287
2025	197,672
2026	<u>209,236</u>
	<u>\$815,276</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2020, actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%
Mortality (2)	Derived using CalPERS Membership Data for all Fund

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

(2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre- retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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.

**NOTE 6 – PENSION PLAN - Continued**

In determining the long-term expected rate of return, CalPERS 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 (1)</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10 (2)</u>	<u>Real Return Years 11+ (3)</u>
Public Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100.0%</u>		

(1) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

Sensitivity of the Net Pension Asset to Changes in the Discount Rate – The following presents the net pension asset of the City Miscellaneous Plan, calculated using the current discount rate for the Plan, as well as what the City's net pension asset 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	6.15%
Net Pension Asset	(\$82,623)
Current Discount Rate	7.15%
Net Pension Asset	(\$867,343)
1% Increase	8.15%
Net Pension Asset	(\$1,516,060)

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

**NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS**

**Postemployment Healthcare Plan (OPEB)**

Plan Description – The City’s defined benefit postemployment healthcare plan is a single-employer defined benefit plan provides medical benefits to employees and their spouses 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.) No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided – The City provides medical insurance benefits to eligible retirees and their spouses. Benefits are provided through CalPERS Health Insurance, and the cost of benefits is limited to the PERS Choice Single Health Plan Premium. The City's governing board has the authority to establish and amend the benefit terms as needed.

Employees Covered – At the June 30, 2021, valuation date, the following employees were covered by the benefit terms for the OPEB Plan:

	Count
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	3
Active employees	7
Total	14

Total OPEB Liability – The City’s Total OPEB liability was measured as of June 30, 2021, was determined by an actuarial valuation as of June 30, 2021 that was based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Contribution Policy	No pre-funding
Discount Rate	3.54% at June 30, 2022
Inflation	2.50% annually
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-2021
Healthcare Trend Cost Rate	Non-Medicare - 6.50% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Non-Kaiser) - 5.65% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Kaiser) - 4.60% for 2023, decreasing to an ultimate rate of 3.75% in 2076

**NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS - Continued**

Change in Total OPEB Liability – The changes in the total OPEB liability for the City are as follows:

	Total OPEB Liability
Balance at June 30, 2021	\$764,837
Changes for the year:	
Service Cost	112,123
Interest on the Total OPEB Liability	18,555
Differences between Expected and Actual Experience	
Benefit payments	(35,827)
Administrative Expense	
Changes of assumptions	(153,791)
Net changes	(58,940)
Balance at June 30, 2022	\$705,897

Sensitivity of the Total OPEB liability to Changes in the Discount Rate – The following presents the total OPEB liability of the City if it were calculated using a discount rate that is one percentage point lower (2.54%) or one percentage point higher (4.54%) than the current rate, for year ended June 30, 2022:

Discount Rate		
-1.0% Discount Rate	Current Rate	+1.0% Discount Rate
2.54%	3.54%	4.54%
\$812,567	\$705,897	\$619,666

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates – The following presents the total OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage higher than the current rate, for year ended June 30, 2022:

Healthcare Trend Rate		
-1.0% Decrease	Current Trend	+1.0% Increase
\$598,367	\$705,897	\$842,691

**NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS - Continued**

Expense and Deferred Outflows/Inflows of Resources Related to OPEB Under GASB Statement No. 75 – For the fiscal year ended June 30, 2022, the City recognized OPEB expense of \$62,350. As of fiscal year ended June 30, 2022, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$139,227	\$214,650
Differences between expected and actual experience		336,133
Total	\$139,227	\$550,783

The amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30	Annual Amortization
2023	(\$68,400)
2024	(67,410)
2025	(64,905)
2026	(76,982)
2027	(102,003)
Thereafter	(31,856)
Total	(\$411,556)

**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:

Fund Balance Classifications	General Fund	Law Enforcement Fund	Gas Tax Fund	Non-Major Governmental Funds			Total
				Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	
<b>Restricted for:</b>							
Capital projects			\$374,280			\$90,524	\$464,804
Law enforcement		\$38,544					38,544
Road impact fees				\$9,384	\$39		\$9,423
<b>Total Restricted Fund Balances</b>		<b>38,544</b>	<b>374,280</b>	<b>9,384</b>	<b>39</b>	<b>90,524</b>	<b>512,771</b>
<b>Unassigned:</b>							
General fund	\$4,949,750						4,949,750
<b>Total Unassigned Fund Balances</b>	<b>4,949,750</b>						<b>4,949,750</b>
<b>Total Fund Balances</b>	<b>\$4,949,750</b>	<b>\$38,544</b>	<b>\$374,280</b>	<b>\$9,384</b>	<b>\$39</b>	<b>\$90,524</b>	<b>\$5,462,521</b>

**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 a self-insured retention of \$1,000,000 by BCJPIA. The City’s self-insured retention is \$5,000. BCJPIA has purchased excess insurance up to \$38,000,000 from a private company to provide coverage for losses and claims in excess of the stated limits.

**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.

**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. WVSWMA 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 3.5 percent for the year.

**NOTE 11 – PARTICIPATION IN JOINT POWERS AUTHORITIES - Continued**

**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. SVACA 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 1.5% and is expected to be 1.64% for the fiscal year 2022-2023.

Audited financial statements are available from these entities.

**NOTE 12 – NEW GASB PRONOUNCEMENTS**

The following Governmental Accounting Standards Board (GASB) pronouncements were effective in fiscal year 2021-2022:

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The provisions of this Statement were implemented during fiscal year 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The provisions of this Statement were implemented during fiscal year 2022. The implementation had no effect on the financial statements.

**NOTE 12 – NEW GASB PRONOUNCEMENTS - Continued**

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. The provisions of this Statement were implemented during fiscal year 2022. The implementation had no effect on the financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement were implemented during fiscal year 2022. This Statement had no material effect on the financial statements.

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Required Supplementary Information  
June 30, 2022  
**City of Monte Sereno**

CITY OF MONTE SERENO  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$2,168,100	\$2,177,826	\$2,325,200	\$147,374
Sales taxes	7,825	15,740	12,936	(2,804)
Franchise fee	310,700	310,567	323,549	12,982
Real property transfer tax	205,245	279,647	198,075	(81,572)
License and permits	666,525	850,859	1,001,062	150,203
Fines and penalties	3,500	2,655	2,451	(204)
Investment earnings	24,150	8,211	9,809	1,598
Intergovernmental / Other agencies	700,750	539,567	418,139	(121,428)
Other revenue	385,600	486,616	353,711	(132,905)
<b>Total Revenues</b>	<u>4,472,395</u>	<u>4,671,688</u>	<u>4,644,932</u>	<u>(26,756)</u>
EXPENDITURES				
Current:				
General Government	3,358,814	3,167,540	2,741,162	426,378
Public safety	2,685,000	2,685,000	1,293,220	1,391,780
Public works	339,800	347,411	367,386	(19,975)
Community development	42,035	33,114	37,489	(4,375)
Capital outlay				
<b>Total Expenditures</b>	<u>6,425,649</u>	<u>6,233,065</u>	<u>4,439,257</u>	<u>1,793,808</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(1,953,254)</u>	<u>(1,561,377)</u>	<u>205,675</u>	<u>1,767,052</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)			(1,000,430)	(1,000,430)
<b>Total Other Financing Sources (Uses)</b>			<u>(1,000,430)</u>	<u>(1,000,430)</u>
NET CHANGE IN FUND BALANCE	<u>(\$1,953,254)</u>	<u>(\$1,561,377)</u>	(794,755)	<u>\$766,622</u>
Fund balance at beginning of year			<u>5,744,505</u>	
FUND BALANCE AT END OF YEAR			<u>\$4,949,750</u>	

CITY OF MONTE SERENO  
LAW ENFORCEMENT FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$106,000	\$111,515	\$191,390	\$79,875
Intergovernmental/ other agencies	100,000	111,285	161,285	50,000
Total Revenues	<u>206,000</u>	<u>222,800</u>	<u>352,675</u>	<u>129,875</u>
EXPENDITURES				
Current:				
Public safety	1,067,085	1,078,370	1,169,391	(91,021)
Total Expenditures	<u>1,067,085</u>	<u>1,078,370</u>	<u>1,169,391</u>	<u>(91,021)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(861,085)</u>	<u>(855,570)</u>	<u>(816,716)</u>	<u>38,854</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			855,260	855,260
Transfers (out)				
Total Other Financing Sources (Uses)			<u>855,260</u>	<u>855,260</u>
NET CHANGE IN FUND BALANCE	<u>(\$861,085)</u>	<u>(\$855,570)</u>	38,544	<u>\$894,114</u>
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR			<u>\$38,544</u>	

CITY OF MONTE SERENO  
GAS TAX FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Gas tax	\$176,000	\$153,505	\$154,815	\$1,310
Investment earnings	650	1,030	1,481	451
Total Revenues	176,650	154,535	156,296	1,761
EXPENDITURES				
Current:				
General Government	3,500	2,576	2,576	
Public works	21,400	12,403	138,779	(126,376)
Total Expenditures	24,900	14,979	141,355	(126,376)
EXCESS OF REVENUES OVER EXPENDITURES	151,750	139,556	14,941	(124,615)
OTHER FINANCING SOURCES (USES)				
Transfers in			133,380	133,380
Transfers (out)				
Total Other Financing Sources (Uses)			133,380	133,380
NET CHANGE IN FUND BALANCE	\$151,750	\$139,556	148,321	\$8,765
Fund balance at beginning of year			225,959	
FUND BALANCE AT END OF YEAR			\$374,280	

CITY OF MONTE SERENO  
MISCELLANEOUS PLAN – COST-SHARING MULTIPLE-EMPLOYER DEFINED PENSION PLAN  
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/ (ASSET)  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS \*\*

Measurement Date	<b>Miscellaneous Plan</b>							
	<b>6/30/2015</b>	<b>6/30/2016</b>	<b>6/30/2017</b>	<b>6/30/2018</b>	<b>6/30/2019</b>	<b>6/30/2020</b>	<b>6/30/2021</b>	<b>6/30/2022</b>
Plan's Proportion of the Net Pension Liability (Asset)	0.01204%	0.01091%	0.01124%	0.00518%	0.00424%	0.01321%	0.01579%	-0.04568%
Plan's Proportionate Share of the Net Pension Liability (Asset)	\$749,395	\$748,563	\$972,944	\$513,753	\$408,507	\$528,780	\$666,025	(\$867,343)
Plan's Covered Payroll	\$713,447	\$723,056	\$673,336	\$672,548	\$774,294	\$903,345	\$841,740	\$806,851
Plan's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered Payroll	105.04%	103.53%	144.50%	76.39%	52.76%	58.54%	79.12%	-107.50%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	79.82%	78.40%	74.06%	73.31%	75.26%	75.26%	75.10%	114.59%

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

**Cost-Sharing Multiple-Employer Defined Pension Plan**  
Last 10 Years\*  
**SCHEDULE OF CONTRIBUTIONS**

Fiscal Year	Miscellaneous Plan				
	2015	2016	2017	2018	2019
Actuarially determined contribution	\$111,286	\$121,561	\$667,968	\$59,622	\$79,188
Contributions in relation to the actuarially determined contributions	(111,286)	(121,561)	(667,968)	(59,622)	(79,188)
Contribution deficiency (excess)					
Covered payroll	\$723,056	\$673,336	\$672,548	\$774,294	\$903,345
Contributions as a percentage of covered payroll	15.39%	18.05%	99.32%	7.70%	8.77%
Valuation date:	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017

Fiscal Year	Miscellaneous Plan		
	2020	2021	2022
Actuarially determined contribution	\$93,864	\$125,384	\$ 82,134
Contributions in relation to the actuarially determined contributions	(93,864)	(813,146)	(82,134)
Contribution deficiency (excess)		(\$687,762)	\$ -
Covered payroll	\$841,740	\$806,851	\$953,625
Contributions as a percentage of covered payroll	11.15%	15.54%	8.61%
Valuation date:	6/30/2018	6/30/2019	6/30/2020

**Notes to Schedule**

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.15%, net of pension plan investment and administrative expenses, including inflation

\* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

CITY OF MONTE SERENO  
SCHEDULE OF CHANGES IN TOTAL OTHER POST-EMPLOYMENT BENEFITS  
LIABILITY AND RELATED RATIOS  
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS \*\*

Measurement Date	2017	2018	2019	2020	2021
Total OPEB Liability (TOL)					
Service Cost	\$97,527	\$94,841	\$105,142	\$139,568	\$112,123
Interest on the total OPEB Liability	25,244	30,267	33,454	29,175	18,555
Changes in benefit terms					
Differences between expected and actual experience				(467,951)	
Changes of assumptions	(33,667)	49,469	212,695	(102,474)	(153,791)
Benefit Payments	(11,211)	(7,732)	(14,591)	(28,152)	(35,827)
Net change in total OPEB liability	77,893	166,845	336,700	(429,834)	(58,940)
Total OPEB liability - beginning	613,233	691,126	857,971	1,194,671	764,837
Total OPEB liability - ending (a)	<u>\$691,126</u>	<u>\$857,971</u>	<u>\$1,194,671</u>	<u>\$764,837</u>	<u>\$705,897</u>
Covered payroll	\$774,294	\$903,345	\$841,740	\$806,851	\$957,255
TOL as a percentage of covered employee payroll	89.26%	94.98%	141.93%	94.79%	73.74%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB 75 is applicable. Future year's information will be displayed up to 10 years as information becomes available.

\* Fiscal year 2018 was the first year of implementation.

City of Monte Sereno  
 Note to Budgetary Information  
 For the Year Ended June 30, 2022

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual budget is adopted by the City Council no later than the first regular meeting in July for the fiscal year beginning July first. As part of the budget process, all City departments submit budget requests for the next fiscal year. These requests are reviewed, and a final City Manager recommended budget showing estimated revenues and expenditures of the City is prepared. This proposed budget is transmitted to the City Council and made available to the public for review. Any new appropriation or appropriation transfer between funds or department requires approval by the City Council. Several supplemental appropriations were necessary during the year and are reflected in the budget amounts in the financial statements. Expenditures may not legally exceed appropriations at the fund level. The Budgetary Comparison Schedules present both the original adopted and the final budget with all amendments. Budgets are adopted each year for all general and law enforcement funds.

The City had the following funds with expenditures in excess of appropriations for the year ended June 30, 2022:

Expenditure	Budgeted Amount Final	Actual Amount	Negative Variance with Final Budget
General Fund			
Public Works	\$347,411	\$367,386	(\$19,975)
Community development	33,114	37,489	(4,375)
Law Enforcement Fund			
Public Safety	1,078,370	1,169,391	(91,021)

Supplementary Information  
June 30, 2022

**City of Monte Sereno**

CITY OF MONTE SERENO  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2022

	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and investments available for operations	\$9,556	\$39	\$90,524	\$100,119
Accounts receivable	5			5
<b>Total Assets</b>	<b>\$9,561</b>	<b>\$39</b>	<b>\$90,524</b>	<b>\$100,124</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$177			\$177
<b>Total Liabilities</b>	<b>177</b>			<b>177</b>
<b>FUND BALANCES</b>				
Restricted	\$9,384	\$39	\$90,524	99,947
<b>Total Fund Balance</b>	<b>9,384</b>	<b>39</b>	<b>90,524</b>	<b>99,947</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$9,561</b>	<b>\$39</b>	<b>\$90,524</b>	<b>\$100,124</b>

CITY OF MONTE SERENO  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2022

	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Property taxes	\$2,492			\$2,492
Other revenue			\$20,174	20,174
Total Revenues	<u>2,492</u>		<u>20,174</u>	<u>22,666</u>
<b>EXPENDITURES</b>				
Current:				
Public Works & Engineering	3,037	\$649	9,438	13,124
Capital outlay			565	565
Total Expenditures	<u>3,037</u>	<u>649</u>	<u>10,003</u>	<u>13,689</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(545)</u>	<u>(649)</u>	<u>10,171</u>	<u>8,977</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,383	649	9,758	11,790
Transfers (out)				
Total Other Financing Sources (Uses)	<u>1,383</u>	<u>649</u>	<u>9,758</u>	<u>11,790</u>
<b>NET CHANGE IN FUND BALANCES</b>	838		19,929	20,767
Fund balances (deficits) at beginning of year	<u>8,546</u>	<u>39</u>	<u>70,595</u>	<u>79,180</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u><u>\$9,384</u></u>	<u><u>\$39</u></u>	<u><u>\$90,524</u></u>	<u><u>\$99,947</u></u>

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**INDEPENDENT AUDITOR’S 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 Honorable 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 basic financial statements of the City of Monte Sereno, California, as of and for the year ended June 30, 2022, and have issued our report thereon dated June 7, 2023.

***Report on Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing 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’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’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 City’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control that we consider to be material weaknesses as listed on the Schedule of Material Weaknesses included as part of our separately issued Memorandum on Internal Control dated June 7, 2023, which is an integral part of our audit and should be read in conjunction with this report.

### ***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City'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 financial statements. 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 test disclosed no instance of noncompliance that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated June 7, 2023 which is an integral part of our audit and should be read in conjunction with this report.

### ***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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maze + Associates*

Pleasant Hill, California  
June 7, 2023