

Financial Statements
June 30, 2024

City of Monte Sereno

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INDEPENDENT AUDITOR'S 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, 2024, 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, 2024, 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 opinions. 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 there is a substantial likelihood that, individually or in the aggregate, they would 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 July 31, 2025, 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
July 31, 2025

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This section of the City of Monte Sereno's Annual Financial Report provides a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2024 (Fiscal 2024). Comparative financial information is included, as appropriate, for the fiscal year ended June 30, 2023 (Fiscal 2023). The Management Discussion and Analysis is to be read in conjunction with the Basic Financial Statements and the Required Supplementary Information.

In full transparency, the City recognizes and acknowledges that this Annual Finance Report is dated July 31, 2025 for the year ended June 30, 2024. The delays in the City's financial reporting were a result of internal control weaknesses that the City failed to address.

Further, while this Annual Financial Report is for Fiscal 2024, it includes certain relevant information regarding actions underway to today's date, which is in Fiscal 2026 so readers can put the financial information presented and comments into context.

FISCAL YEAR 2024 FINANCIAL HIGHLIGHTS

- **Net Position:** The City's total net position was \$4,352,610, which decreased by \$466,866 from the prior year's net position of \$4,819,476.
- **Revenues and Expenses:** Total revenues for the fiscal year were \$5,143,616, a slight increase from \$5,142,039 in the prior year, primarily due to a rise in property taxes. Total expenses amounted to \$5,610,482, a decrease from \$5,961,235 in the prior year.
- **Unrestricted Net Position:** The City's Unrestricted Net Position, which is available for ongoing operations and capital needs, stands at \$3,945,241.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is in four parts:

1. **Management's Discussion and Analysis.**
2. **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 Financial Statements** for non-major governmental funds.

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 governmental 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, 2024.

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.

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 property 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 Statements

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 to the Financial Statements are immediately following the fund financial statements.

Required Supplementary Information

The Required Supplementary Information (RSI) follows the Basic Financial Statements Notes to the Financial Statements. The RSI includes a comparison of the budgeted amounts for the General Fund and all major special revenue funds, as presented in the governmental fund financial statements. RSI also includes the pension schedules and retiree post employment benefits schedules.

Combining and Individual Fund Statements and Schedules

Combining Balance Sheet and Combining Statements of Revenues, Expenditures and Changes in Fund Balances provide information for non-major governmental funds.

Government-Wide Financial 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.

Key Financial Changes in Fiscal 2024:

- **Cash and Investments:** Decreased by \$155,570 to \$6,308,726.
- **Receivables:** Increased by \$9,000 to \$169,701. The prior year receivables were collected and the current year receivable is the property (parcel) tax receivable in the Law Enforcement Fund. The property tax receivable of \$169,000 as at June 30, 2024 was collected in May 2025.
- **Liabilities:** The net pension liability grew by \$168,550 to \$356,553, and other postemployment benefits (OPEB) liabilities increased by \$48,702 to \$891,652, both primarily due to changes in actuarial assumptions.
- **Capital Assets:** The City's net investment in capital assets is \$309,051. In Fiscal 2024, the City purchased a new light-duty truck for \$43,306 and recorded \$15,208 in depreciation. No capital assets were disposed of during the year. Purchasing a vehicle was one of the City's goals in Fiscal 2024 under Provide Quality Public Service.

Change in Accounting Policy

Effective July 1, 2023, the City raised its capitalization threshold for depreciable assets from \$1,000 to \$10,000 per unit. This change, applied prospectively, was made to improve the efficiency of asset tracking, reduce administrative costs, and align with practices of similarly sized municipalities. As a result, approximately \$35,000 in acquisitions that would have been capitalized under the old policy were instead recorded as operating expenses. This led to an increase in current year expenses and a corresponding decrease in capital assets and net position.

Net Position Details:

- **Unrestricted Net Position:** Constitutes 90.6% (\$3,945,241) of the total net position and is available to meet ongoing obligations to the City residents and creditors.
- **Restricted Net Position:** Represents 2.3% (\$98,238) of the total net position and is restricted primarily for capital projects and public safety improvements.

The following table shows a condensed statement of net position for the City for Fiscal 2024 with comparative figures for Fiscal 2023.

**Statement of Net Position
Table 1**

	Governmental Activities	
	2024	2023
ASSETS		
Cash and investments	\$6,308,726	\$6,464,296
Receivables		
Taxes	169,196	196
Other	505	160,505
Net pension asset		
Capital assets		
Land and construction in progress	119,888	119,888
Depreciable capital assets, net	189,243	161,145
Total assets	<u>6,787,558</u>	<u>6,906,030</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to OPEB	107,173	154,228
Deferred outflows of resources related to pensions	757,317	1,020,452
Total deferred outflows of resources	<u>864,490</u>	<u>1,174,680</u>
LIABILITIES		
Accounts payable and accrued liabilities	1,246,044	1,310,962
Compensated absences payable - current	93,116	72,352
Total other postemployment benefits liability	891,652	842,950
Net pension liabilities	356,553	188,003
Total liabilities	<u>2,587,365</u>	<u>2,414,267</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to OPEB	369,664	443,829
Deferred inflows of resources related to pensions	342,409	403,138
Total deferred inflows of resources	<u>712,073</u>	<u>846,967</u>
NET POSITION		
Net investment in capital assets	309,131	281,033
Restricted for:		
Capital projects	77,238	683,436
Road and streetlight projects	21,000	90,524
Total restricted net position	<u>98,238</u>	<u>773,960</u>
Unrestricted net position	<u>3,945,241</u>	<u>3,764,483</u>
Total net position	<u><u>\$4,352,610</u></u>	<u><u>\$4,819,476</u></u>

The City's charges for services increased by \$88,757 to \$948,880. Prior year was \$860,123. The current year net increase was primarily due to public safety program revenues.

Property taxes increased by \$196,782 to \$2,968,773. Prior year was \$2,771,991. The current year increase was due to an increase in the assessed valuation for properties within the City.

Total expenses in the current year were \$5,610,482, or \$350,753 lower than the prior year. General government expenses decreased by \$601,712 to \$3,901,479; Public safety increased by \$173,303 to \$1,417,897, Public works increased \$8,332 to \$194,082 and Community development increased by \$69,424 to \$97,024.

**Statement of Net Position
Table 2**

	Governmental Activities	
	2024	2023
Revenues		
Program revenues		
Charges for services	\$948,880	\$860,123
Operating contributions and grants	193,255	582,754
General revenues		
Property taxes	2,968,773	2,771,991
Other taxes	735,203	618,170
Other	297,505	309,001
Total revenues	<u>5,143,616</u>	<u>5,142,039</u>
Expenses		
General government	3,901,479	4,503,191
Public safety	1,417,897	1,244,694
Public works	194,082	185,750
Community development	97,024	27,600
Total expenses	<u>5,610,482</u>	<u>5,961,235</u>
Changes in Net Position	(466,866)	(819,196)
Net Position - Beginning	<u>4,819,476</u>	<u>5,638,672</u>
Net Position - Ending	<u><u>\$4,352,610</u></u>	<u><u>\$4,819,476</u></u>

Government-Wide Activities Analysis

General Revenues - Revenues for government-wide activities the year ended June 30, 2024, increased by \$302,319 or 8.2% to \$4,001,481 from the prior year of \$3,699,162.

- **Property taxes** increased \$196,782 or 7.1% from the prior year to \$2,968,773.
- **Other taxes and franchise** fees increased \$117,033 or 18.9% from the prior year to \$735,203.
- **Other revenue** decreased \$11,496 or 3.7% from the prior year to \$297,505.

Governmental Activities Expenses – Expenses for the year ended June 30, 2024 decreased \$350,753 or 5.9% compared to the prior fiscal year to \$5,610,482.

Law Enforcement Fund

The City's largest ongoing expenditures are for police services as provided by the Town of Los Gatos, the cost of which increased in Fiscal 2024 as per the agreement, which expires on June 30, 2025. Due to limited financial resources, the City did not invest in license plate readers in Fiscal 2024 and have budgeted to do so in Fiscal 2026.

- **Revenues:** Total revenues for the Law Enforcement Fund were \$374,182, a 4.9% increase from the prior year, largely attributed to the COPS grant.
- **Expenditures:** Total expenditures rose by 18.9% to \$1,398,672. The total increase included an increase in policing costs paid to the Town of Los Gatos of \$139,857 and \$82,940 paid to the County Assessor for costs to issue 1,276 corrected parcel tax bills to residents of Monte Sereno. In the year ended June 30, 2025, the City paid another \$81,835 to issue 1,259 corrected parcel tax bills. The Law Enforcement Fund budget for the year ended June 30, 2024 included property tax revenues for parcel taxes of only \$89,000.

Roadway and Street Fund

- **Revenues:** Gasoline tax revenues increased to \$179,589 from \$159,503 in the prior year.
- **Expenditures:** Actual expenditures were \$175,314, an increase of \$117,381 from the prior year. Budgeted expenditures in the Roadway and Street Fund were \$426,700. The significant difference between the budgeted expenditures and actual expenditures related to the timing of the work performed.

General Fund Budgetary Highlights

City Council hosted a study session to discuss alternatives for setting the goals and priorities for Fiscal 2024 on Saturday, April 1, 2023 and then confirmed those goals and priorities at a City Council meeting on April 18, 2023. These goals followed the framework that was developed in prior years, for the City to:

- Provide Quality Public Services
- Maintain Community Character
- Enhance Mobility for Residents
- Maintain Community Safety
- Enhance Environmental Sustainability

The budget follows the goals and priorities established by City Council.

- **Actual to Budget Revenues:** General Fund total revenues were \$4,566,400, which was \$547,666 below budget. The variance was primarily because the City decided not to pursue \$500,000 in reimbursable grants (classified as "Intergovernmental/other agencies") in reimbursable grants to build a Community Center that the City did not build. However, investment earnings exceeded budget by \$122,224 due to the City investing in 90 day Treasury Bills as interest rates increased in last half of calendar 2023 and the first quarter of calendar 2024. In June 2023, the City amended its investment policy and reduced the funds managed by LAIF by \$4.5 million and invested those funds in U.S. Treasury Bills. This change increased the yield from prior years while maintaining safety and liquidity, and increasing yield.

- **Actual to Budget Expenditures:** General Fund expenditures were \$738,310 less than budget, primarily due to capital expenditures for the Community Center that the City decided not to undertake. During Fiscal 2024, the City expended significant effort and funds in preparing its housing element plan as required by the State. City staff, external advisors, City Council and residents were engaged in preparing and submitting draft housing element plans to the State, which was certified on July 5, 2024

One of the City's strategic goals for Fiscal 2024 was to Provide Quality Public Services, one element was to consider migration to a biannual budget from an annual budget process/cycle. This migration was difficult because the budgeting by fund was not robust, and the budgets did not consider interfund transfers. Fortunately, another element under Provide Quality Public Services was to review, evaluate, and select a new financial reporting system for the City of Monte Sereno's general accounting system.

Improving Internal Control Processes with a New Financial Reporting System

As noted above, a key element for Fiscal 2024 was to select a new financial reporting system. Following the departure of the City Manager and Finance Director early in Fiscal 2025, the City formed an ad hoc committee to lead this effort effectively and implement internal control processes with a new financial reporting system. The ad hoc committee established requirements and identified potential financial reporting systems in late calendar 2024, then reviewed and evaluated financial reporting systems in early calendar 2025, and recommended a financial reporting system to City Council in May 2025, which was approved.

The cloud-based financial reporting system is being implemented in Fiscal 2026. The new financial reporting system will address internal control weaknesses, increase the timeliness of financial reporting, and, ultimately, provide full financial transparency to residents. This financial reporting system will be provided under a subscription-based information technology arrangement, otherwise known as a SBITA.

Included in the implementation of the new financial reporting system will be a new budget process with fully documented accounting policies and procedures that will drive thorough and timely budget-to-actual reporting that will provide new, valuable and much needed internal controls while managing costs and increasing staff productivity. Both the accuracy and timeliness of the budget and biannual budget processes will be enhanced significantly.

Long-Term Liabilities

The City's long-term liabilities consist of compensated absences and employee benefits liabilities. The compensated absences in the amount of \$93,116 higher by \$20,764 to prior year. The other postemployment benefits liabilities and net pension liabilities in the amount of \$1,248,205 have increased by \$217,252 or 21% compared to the prior year. The increase is mainly attributed to the increase in pension liabilities.

Economic Factors

The City is almost 100% residential and has no commercial zoning so the City's revenues are largely from property taxes and building permits.

Property values continue to rise in Monte Sereno and property tax revenues have continued to increase each year. Economic factors in the Silicon Valley influence property values while also influencing the cost of staffing for the City.

Building activity in Monte Sereno fluctuates due to many factors, predominantly determined by employment opportunities, interest rates and consumer confidence. The City continues to be a desirable place to live in the South Bay due to excellent schools, public safety, short commutes and easy access to open space. Many people buy properties in the City so they can build the home of their dreams.

The City plans to improve its customer orientation while becoming more efficient to help new and existing residents update and renovate existing homes and structures, build new Accessory Dwelling Units (commonly known as "ADUs") that are affordable for aging parents, young adults, and caregivers, and facilitate new residents to build the home of their dreams.

The risk of wildfires were, and continue to be, top of mind for the City and the City invested in increasing the resiliency and hardening City Hall. The risk of wildfires has continued to increase, which is in addition to the economic factors noted above.

REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the City of Monte Sereno's finances and demonstrate accountability for the funds it receives. Questions regarding this report or requests for additional information should be directed to:

City of Monte Sereno
18041 Saratoga-Los Gatos Road
Monte Sereno, California 95030

CITY OF MONTE SERENO
STATEMENT OF NET POSITION (GOVERNMENT-WIDE)
JUNE 30, 2024

	<u>Primary Government</u>
	Governmental Activities
ASSETS	
Cash and investments (Note 3)	\$6,308,726
Receivables	
Taxes	169,196
Other	505
Capital assets (Note 5)	
Land	119,888
Depreciable capital assets, net	189,243
Total assets	6,787,558
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to OPEB (Note 7)	107,173
Deferred outflows of resources related to pensions (Note 6)	757,317
Total deferred outflows of resources	864,490
LIABILITIES	
Accounts payable and accrued liabilities	1,246,044
Compensated absences payable - current	93,116
Noncurrent Liabilities:	
Net pension liability (Note 6)	356,553
Total other postemployment benefits liability (Note 7)	891,652
Total liabilities	2,587,365
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to OPEB (Note 7)	369,664
Deferred inflows of resources related to pensions (Note 6)	342,409
Total deferred inflows of resources	712,073
NET POSITION (Note 9)	
Net investment in capital assets (Note 5)	309,131
Restricted for:	
Capital projects	77,238
Road and streetlight projects	21,000
Total restricted net position	98,238
Unrestricted net position	3,945,241
Total net position	\$4,352,610

See accompanying notes to financial statements

CITY OF MONTE SERENO
STATEMENT OF ACTIVITIES (GOVERNMENT-WIDE)
FOR THE YEAR ENDED JUNE 30, 2024

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
Primary Government:				
Governmental Activities:				
General government	\$3,901,479	\$722,286		(\$3,179,193)
Public safety	1,417,897	226,594		(1,191,303)
Public works	194,082		\$193,255	(827)
Community development	97,024			(97,024)
Total Governmental Activities	\$5,610,482	\$948,880	\$193,255	(4,468,347)
General revenues:				
Taxes:				
Property taxes				2,968,773
Sales taxes				7,683
Gasoline taxes				179,589
Franchise fees				470,025
Real property transfer taxes				77,906
Other revenue				297,505
Total general revenues				4,001,481
Change in Net Position				(466,866)
Net Position, Beginning				4,819,476
Net Position, Ending				\$4,352,610

See accompanying notes to financial statements

CITY OF MONTE SERENO
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2024

	General	Law Enforcement Fund	Roadway and Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$6,135,335		\$145,640	\$27,751	\$6,308,726
Receivables					
Taxes	196	\$169,000			169,196
Other			500	5	505
Due from other funds	75,658	19,023			94,681
Total Assets	\$6,211,189	\$188,023	\$146,140	\$27,756	\$6,573,108
LIABILITIES					
Accounts payable and accrued liabilities	\$209,180	\$221,864			\$431,044
Due to other funds	19,023			\$75,658	94,681
Total Liabilities	228,203	221,864		75,658	525,725
FUND BALANCES					
Fund balance (Note 9):					
Restricted			\$146,140	(47,902)	98,238
Unassigned	5,982,986	(33,841)			5,949,145
TOTAL FUND BALANCES	5,982,986	(33,841)	146,140	(47,902)	6,047,383
Total Liabilities and Fund Balances	\$6,211,189	\$188,023	\$146,140	\$27,756	\$6,573,108

See accompanying notes to financial statements

CITY OF MONTE SERENO
 Reconciliation of the
 GOVERNMENTAL FUNDS BALANCE SHEET
 with the
 STATEMENT OF NET POSITION (GOVERNMENT-WIDE)
 JUNE 30, 2024

Fund Balance - Total Governmental Funds \$6,047,383

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. (Note 5) 309,131

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	(93,116)
Accounts payable and accrued liabilities	(815,000)
Net pension liability	(356,553)
Total other post employment liability	(891,652)
Deferred outflows of resources related to pensions	757,317
Deferred outflows of resources related to OPEB (Note 7)	107,173
Deferred inflows of resources related to pensions	(342,409)
Deferred inflows of resources related to OPEB	(369,664)
	(369,664)

NET POSITION OF GOVERNMENTAL ACTIVITIES (GOVERNMENT-WIDE) \$4,352,610

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, 2024

	General	Law Enforcement Fund	Roadway and Street Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$2,778,341	\$188,023		\$2,409	\$2,968,773
Sales taxes	7,683				7,683
Gasoline taxes			\$179,589		179,589
Franchise fees	470,025				470,025
Real property transfer taxes	77,906				77,906
Licenses and permits	714,874				714,874
Fines and penalties	7,412				7,412
Investment earnings	219,724		6,870		226,594
Intergovernmental/other agencies	7,096	186,159			193,255
Other revenue	283,339			14,166	297,505
Total Revenues	4,566,400	374,182	186,459	16,575	5,143,616
EXPENDITURES					
Current:					
General government	3,352,260	82,940	2,926		3,438,126
Public safety	102,165	1,315,732			1,417,897
Public works	3,703		175,314	15,065	194,082
Community development	97,024				97,024
Capital outlay					
Total Expenditures	3,555,152	1,398,672	178,240	15,065	5,147,129
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,011,248	(1,024,490)	8,219	1,510	(3,513)
OTHER FINANCING SOURCES (USES) (Note 4)					
Transfers in		822,185		612	822,797
Transfers out	(305,198)		(364,756)	(152,843)	(822,797)
Total Other Financing Sources (Uses)	(305,198)	822,185	(364,756)	(152,231)	
NET CHANGE IN FUND BALANCES	706,050	(202,305)	(356,537)	(150,721)	(3,513)
FUND BALANCES, BEGINNING	5,276,936	168,464	502,677	102,819	6,050,896
FUND BALANCES, ENDING	\$5,982,986	(\$33,841)	\$146,140	(\$47,902)	\$6,047,383

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, 2024

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 (\$3,513)

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 (Note 5)	43,306
Depreciation expense is deducted from fund balance (Note 5)	(15,208)

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	(20,764)
Accounts payable and accrued liabilities	(78,139)
Net pension liability and deferred outflows/inflows of resources related to pensions	(370,956)
Net OPEB liability and deferred outflows/inflows of resources related to OPEB	<u>(21,592)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES, (GOVERNMENT-WIDE) (\$466,866)

See accompanying notes to financial statements

NOTE 1 – GENERAL

The City of Monte Sereno (the City) was incorporated on May 14, 1957, and operates under the Council-Manager form of government. The City Council has five elected members. The City provides services to its citizens directly and through joint powers authorities on a regional basis.

Direct services include public safety (police services), public works (roads and streets), community development (planning and zoning), building services (construction plan checks, building permits and building inspections), code enforcement 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 non-major 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 other funds. For the City, the General Fund includes general government, public safety, public works, community development and administration.

The Law Enforcement Special Revenue Fund accounts for all financial activity related to the City's Law Enforcement Services. The fund's major sources of revenue are a special assessment parcel tax, which must be used exclusively for obtaining, operating, and maintaining police protection services within the City, and government grants. Other revenues in this fund include fines and penalties received from traffic and parking enforcement in the City, which expenditures are restricted to Law Enforcement Services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Roadway and Street Special Revenue Fund accounts for revenues received from various sources that are restricted to expenditures relating to capital, rehabilitation and maintenance for roads, streets, curbs, signage and striping in the City. These revenues include those received from the State of California on all gasoline and diesel purchases under the provision of the Streets and Highways that are restricted to uses related to transit construction and improvements, and maintenance. Other revenues include funds received under the Transportation Development Act that are restricted for bicycle routes and pedestrian facilities improvements. Also, the City receives vehicle road impact fees from developers and franchise and encroachment fees from solid waste haulers and others to use the public right-of-way, all of which are restricted for roads and streets, including sweeping and cleaning, in the City.

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, real 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. 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 \$10,000 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.

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 Transfers

Interfund 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.

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. The City has investments in U.S. Treasury Obligations and funds in the Local Agency Investment Fund (LAIF), which meets the definition of a cash equivalent, so the combined balances are 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, 2024.

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, which are included in the Law Enforcement Fund. Gasoline and diesel taxes are restricted by state statute for use on road and street repair and maintenance projects, which are included in the Roadway and Street Fund. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2024.

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 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. The City did not have any negative residual fund balances in any other governmental funds.

Use of Restricted Resources

The City uses 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.

- 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.

Subscription-Based Information Technology Arrangements

A Subscription-Based Information Technology Arrangements (SBITA) is a contract that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange-like transaction. Subscription assets are reported with other capital assets and subscription liabilities are reported with long-term debt on the statement of net position. To date, all SBITAs entered into by the City have not been material.

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 Cash and Investments

Cash and Investments as of June 30, 2024, consist of the following at fair value:

Cash with financial institutions	\$1,428,743
Investments	<u>4,879,983</u>
Total cash and investments	<u><u>\$6,308,726</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, 2024.

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:

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	\$75 Million

NOTE 3 – CASH AND INVESTMENTS - Continued

Interest Rate Risk and Fair Value Hierarchy

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, 2024, the City had the following investments. All investments are in the State’s investment pool.

	Fair Value	Matures in 12 Months or less
Local Agency Investment Fund (LAIF)	\$156,584	\$156,584
U.S. Treasury Obligation	4,723,399	4,723,399
Total	\$4,879,983	\$4,879,983

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

U.S. Treasury Obligations are classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. The City does not have any Level 2 or Level 3 investments.

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, 2024, the City's bank balance of \$1,428,743 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.

NOTE 3 – CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Investments

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

Investment in the State Investment Pool

The City is a voluntary participant in the LAIF that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in the pool is reported in the accompanying financial statements 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

Interfund 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.

	Transfers In	Transfers Out
General Fund		\$305,198
<i>Special Revenue Funds:</i>		
Law Enforcement Fund	\$822,185	
Roadway and Street Fund		364,756
Non-major Funds	612	152,843
Total	\$822,797	\$822,797

NOTE 5 – CAPITAL ASSETS

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

The following table presents the capital assets activity for the year ended June 30, 2024.

	Balance at June 30, 2023	Additions	Balance at June 30, 2024
Capital assets, not being depreciated:			
Land	\$119,888	-	\$119,888
Total capital assets not being depreciated	<u>119,888</u>	<u>-</u>	<u>119,888</u>
Capital assets being depreciated:			
Buildings Improvements	409,663		409,663
Computer Equipment	46,395		46,395
Office Equipment	39,563		39,563
Vehicles		\$43,306	43,306
Total capital assets being depreciated	<u>495,621</u>	<u>43,306</u>	<u>538,927</u>
Less accumulated depreciation for:			
Buildings Improvements	255,287	8,125	263,412
Computer Equipment	46,395		46,395
Office Equipment	32,794	896	33,690
Vehicles		6,187	6,187
Total accumulated depreciation	<u>334,476</u>	<u>15,208</u>	<u>349,684</u>
Net capital assets being depreciated	<u>161,145</u>	<u>28,098</u>	<u>189,243</u>
Total capital assets, net	<u>\$281,033</u>	<u>\$28,098</u>	<u>\$309,131</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.

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, 2024, 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%	7.75%
Required employer contribution rates	11.84%	7.68%

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 annually 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, 2024, the contributions to the Plan were \$117,287.

NOTE 6 – PENSION PLAN – Continued

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

As of June 30, 2024, the City’s reported net pension liability for its proportionate share of the pension liability of the Plan is as follows:

	<u>Miscellaneous</u>
Proportionate Share of Net Pension Liability	\$356,553

The City’s net pension liability for the Plan is measured as the proportionate share of the collective net pension liability. The net pension liability of the Plan is measured as of June 30, 2023, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022 rolled forward to June 30, 2023 using standard actuarial update procedures. The City’s proportion of the collective net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The City’s proportionate share of the net pension liability for each Miscellaneous Plans as of June 30, 2023 is as follows:

	<u>Miscellaneous Plans</u>
Proportion - June 30, 2022	0.00402%
Proportion - June 30, 2023	0.00713%
Change - Increase (Decrease)	0.00311%

In the current fiscal year, the City recognized pension expense of \$370,956. At June 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$117,287	
Differences between actual and expected experience	18,215	(\$2,826)
Changes in assumptions	21,527	
Difference between proportional and actual contributions	439,402	(266,923)
Adjustment due to differences in proportions	103,157	(72,660)
Net differences between projected and actual earnings on plan investments	57,729	
Total	<u>\$757,317</u>	<u>(\$342,409)</u>

NOTE 6 – PENSION PLAN – Continued

The amount of \$117,287 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, 2024. 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>	
2025	\$181,411
2026	95,472
2027	19,082
2028	<u>1,656</u>
	<u>\$297,621</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2022, actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return (1)	6.90%
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 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 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 November 2021 that can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 6.90%. 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:

Asset Class (1)	Assumed Asset Allocation	Real Return 1,2
Global Equity-Cap Weighted	30.0%	4.54%
Global Equity-Non-Cap Weighted	12.00%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

(1) An expected inflation of 2.30% used for this period.

(2) Figures are based on the 2021 Asset Liability Management study.

NOTE 6 – PENSION PLAN – Continued

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

1% Decrease	5.90%
Net Pension Liability	\$1,325,798
Current Discount Rate	6.90%
Net Pension Liability	\$356,553
1% Increase	7.90%
Net Pension Asset	(\$441,219)

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 POST EMPLOYMENT BENEFITS

Post Employment Healthcare Plan (OPEB)

Plan Description – The City’s defined benefit post employment 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, 2024 measurement 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	10
Total	17

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS - Continued

Total OPEB Liability – The City’s Total OPEB liability was measured as of June 30, 2024, was determined by an actuarial valuation as of June 30, 2022 that was based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Contribution Policy	No pre-funding
Discount Rate	3.93% at June 30, 2024
Inflation	2.50% annually
Mortality, Retirement, Disability, Termination	CalPERS 2000-2019 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-2021
Healthcare Trend Cost Rate	Non-Medicare - 8.50% for 2025, decreasing to an ultimate rate of 3.45% in 2076 Medicare (Non-Kaiser) - 7.50% for 2025, decreasing to an ultimate rate of 3.45% in 2076 Medicare (Kaiser) - 6.25% for 2025, decreasing to an ultimate rate of 3.45% in 2076

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

	<u>Total OPEB Liability</u>
Balance at June 30, 2023	<u>\$842,950</u>
Changes for the year:	
Service Cost	94,662
Interest on the Total OPEB Liability	33,446
Differences between Expected and Actual Experience	-
Benefit payments	(42,560)
Administrative Expense	-
Changes of assumptions	<u>(36,846)</u>
Net changes	<u>48,702</u>
Balance at June 30, 2024	<u><u>\$891,652</u></u>

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 (2.93%) or one percentage point higher (4.93%) than the current rate, for year ended June 30, 2024:

<u>Discount Rate</u>		
-1.0% Discount Rate	Current Rate	+1.0% Discount Rate
2.93%	3.93%	4.93%
<u>\$1,034,232</u>	<u>\$891,652</u>	<u>\$776,547</u>

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS - Continued

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, 2024:

Healthcare Trend Rate		
-1.0% Decrease	Current Trend	+1.0% Increase
\$745,194	\$891,652	\$1,080,488

Expense and Deferred Outflows/Inflows of Resources Related to OPEB Under GASB Statement No. 75 – For the fiscal year ended June 30, 2024, the City recognized OPEB expense of \$64,261. As of fiscal year ended June 30, 2024, 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	\$84,863	\$165,349
Differences between expected and actual experience	22,310	204,315
Total	\$107,173	\$369,664

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
2025	(\$61,451)
2026	(73,528)
2027	(98,549)
2028	(26,238)
2029	1,290
Thereafter	(4,015)
Total	(\$262,491)

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

Fund Balance

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

Fund Balance Classifications	General Fund	Law Enforcement Fund	Roadway and Streets Fund	Non-Major Governmental Funds			Total
				Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	
Restricted for:							
Capital projects			\$146,140			\$21,000	\$167,140
Law enforcement							
Road impact fees				(\$68,902)			(\$68,902)
Total Restricted Fund			146,140	(68,902)		21,000	98,238
Unassigned:							
General fund	\$5,982,986	(\$33,841)					5,949,145
Total Unassigned Fund	5,982,986	(33,841)					5,949,145
Total Fund Balances	\$5,982,986	(\$33,841)	\$146,140	(\$68,902)		\$21,000	\$6,047,383

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 (Bay Cities JPIA). Bay Cities JPIA is a public entity risk pool that is currently operating a common risk management agency with 22 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 Bay Cities JPIA.

The City’s self-insured retention is \$5,000. Bay Cities JPIA 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.

The Bay Cities JPIA financial statements may be obtained directly from Bay Cities Joint Powers Insurance Authority, Bickmore, 1750 Creekside Oaks Drive Suite 200, Sacramento, CA 95833.

NOTE 11 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The City participates in six joint powers authorities (JPAs) formed under the Joint Exercise of Powers Act of the State of California, which allows public agencies to jointly exercise common powers through cooperative agreements. These JPAs provide cost-effective access to regional services and programs. The City does not have an equity interest in these JPAs and is not liable for their debts beyond its agreed-upon contributions or contractual obligations.

As separate legal entities, these entities exercise full powers and authorities within the scope of the related joint powers agreements, including the preparation of annual budgets, accountability for all funds, and the power to make and execute contracts. All transactions between the JPAs and the City are recorded as operating revenues and expenditures in the applicable governmental functions.

NOTE 11 – PARTICIPATION IN JOINT POWERS AUTHORITIES - Continued

Summaries of the JPAs that the City was a member of on June 30, 2024 are set forth below.

West Valley Clean Water Joint Powers Authority (West Valley Clean Water)

West Valley Clean Water provides stormwater permit compliance, regulatory support, and public education under the National Pollutant Discharge Elimination System (NPDES) program. Member agencies include the Cities of Monte Sereno, Saratoga, and Campbell and the Town of Los Gatos. West Valley Clean Water is governed by a Board of Directors with one representative from each member agency.

The City contributes annually based on a cost-sharing formula. The City of Saratoga maintains the financial records and provides accounting services for West Valley Clean Water. Audited financial statements are available from the City of Saratoga.

West Valley Solid Waste Management Authority (West Valley Solid Waste)

West Valley Solid Waste manages solid waste and recycling services through regional franchise agreements and oversees compliance with state diversion and organics mandates. Member agencies include the Cities of Monte Sereno, Saratoga, and Campbell and the Town of Los Gatos. West Valley Solid Waste is governed by a Board of Directors composed of elected officials from each member agency.

The City's share of costs is based on collected tonnage and population. The City of Campbell maintains the financial records and provides accounting services for West Valley Solid Waste. Audited financial statements are available from the City of Campbell.

Silicon Valley Clean Energy Authority (SVCE)

SVCE is a Community Choice Aggregator that enables its member agencies to pool the electricity demand within their jurisdictions to directly procure or generate electrical power supplies on behalf of their communities, thus allowing the agencies to provide an alternative supply of clean energy for residents at competitive prices with investor-owned utilities. SVCE has thirteen member agencies in Santa Clara County, including the City of Monte Sereno. It is governed by a Board of Directors made up of elected officials from each participating jurisdiction. SVCE provides local control over energy procurement while utilizing Pacific Gas & Electric's (PG&E) infrastructure for transmission, delivery and billing services. The City's financial responsibility is limited to power purchase payments and administrative participation fees. SVCE's customers pay SVCE directly through their PG&E bills (the City does not provide supplementary funding to SVCE).

Audited financial statements are available from Silicon Valley Clean Energy Authority.

NOTE 11 – PARTICIPATION IN JOINT POWERS AUTHORITIES - Continued

Silicon Valley Animal Control Authority (Silicon Valley Animal Control)

Silicon Valley Animal Control provides animal control, sheltering, licensing, and public education services. Silicon Valley Animal Control promotes humane animal care and enforces local and state animal control regulations. Member agencies include the Cities of Monte Sereno, Campbell, and Santa Clara. Silicon Valley Animal Control operates a regional animal care center and is governed by a Board of Directors with representatives from each member agency. The City pays an annual fee based on service usage and population.

Audited financial statements are available from Silicon Valley Animal Control Authority.

Santa Clara County Library District Joint Powers Authority (Santa Clara County Library)

The Santa Clara County Library District is the governing board, which provides policy direction and governance for the Santa Clara County Library.

Member agencies include the Cities of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Milpitas, Monte Sereno, Morgan Hill, and Saratoga and the County of Santa Clara.

Santa Clara County Library is primarily funded from a property tax district. Individuals living in the unincorporated area and in the nine cities served by the County Library District have a portion of their property tax designated for the Santa County Library District. In addition to the property tax, district property is also assessed for enhanced service through a Community Facilities District. Voters endorsed the assessment in 1994, 2005 and 2013.

The City does not provide supplementary funding to Santa Clara County Library.

Cities Association of Santa Clara County Joint Powers Authority (Cities Association)

The Cities Association was formed on February 1, 2024 for the purpose of promoting cooperation among its 14 members; advocating for positive action; enhancing the quality of life for the residents of Santa Clara County and their individual cities; and encouraging other joint and cooperative endeavors among the public agencies for their mutual benefit.

The 14 member agencies include the Cities of Campbell, Cupertino, Los Altos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale, and the Towns of Los Altos Hills and Los Gatos.

The Cities Association is funded by its members, based on their size and population. The City paid the Cities Association \$6,523 in 2024.

Audited financial statements are available from the Cities Association.

NOTE 12 – NEW GASB PRONOUNCEMENTS

The following Governmental Accounting Standards Board (GASB) pronouncements became effective in fiscal year 2023-2024:

GASB Statement No. 100 – In June 2022, GASB issued Statement No. 100, *Accounting for Changes and Error Corrections*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement is effective for reporting periods beginning after June 15, 2023, or the fiscal year 2023-24. The implementation of this Statement did not have a material effect on the financial statements.

Required Supplementary Information
June 30, 2024
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, 2024

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$2,755,000	\$2,755,000	\$2,778,341	\$23,341
Sales taxes	9,000	9,000	7,683	(1,317)
Franchise fees	342,400	342,400	470,025	127,625
Real property transfer tax	106,900	106,900	77,906	(28,994)
License and permits	739,000	739,000	714,874	(24,126)
Fines and penalties	2,100	2,100	7,412	5,312
Investment earnings	97,500	97,500	219,724	122,224
Intergovernmental/other agencies	884,666	884,666	7,096	(877,570)
Other revenue	177,500	177,500	283,339	105,839
Total Revenues	5,114,066	5,114,066	4,566,400	(547,666)
EXPENDITURES				
Current:				
General government	4,226,962	4,226,962	3,352,260	874,702
Public safety	12,500	12,500	102,165	(89,665)
Public works	34,000	34,000	3,703	30,297
Community development	20,000	20,000	97,024	(77,024)
Capital outlay	500,000	500,000		500,000
Total Expenditures	4,793,462	4,793,462	3,555,152	1,238,310
EXCESS OF REVENUES OVER EXPENDITURES	320,604	320,604	1,011,248	690,644
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)			(305,198)	(305,198)
Total Other Financing Sources (Uses)			(305,198)	(305,198)
NET CHANGE IN FUND BALANCE	\$320,604	\$320,604	706,050	\$385,446
Fund balance at beginning of year			5,276,936	
FUND BALANCE AT END OF YEAR			\$5,982,986	

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, 2024

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$89,000	\$89,000	\$188,023	\$99,023
Intergovernmental/other agencies	100,000	100,000	186,159	86,159
Total Revenues	<u>189,000</u>	<u>189,000</u>	<u>374,182</u>	<u>185,182</u>
EXPENDITURES				
Current:				
General government			82,940	(82,940)
Public safety	1,192,665	1,192,665	1,315,732	(123,067)
Total Expenditures	<u>1,192,665</u>	<u>1,192,665</u>	<u>1,398,672</u>	<u>(206,007)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(1,003,665)</u>	<u>(1,003,665)</u>	<u>(1,024,490)</u>	<u>(20,825)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			822,185	822,185
Transfers (out)				
Total Other Financing Sources			<u>822,185</u>	<u>822,185</u>
NET CHANGE IN FUND BALANCE	<u>(\$1,003,665)</u>	<u>(\$1,003,665)</u>	(202,305)	<u>\$801,360</u>
Fund balance at beginning of year			<u>168,464</u>	
FUND BALANCE AT END OF YEAR			<u>(\$33,841)</u>	

CITY OF MONTE SERENO
ROADWAY AND STREET FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Gasoline taxes	\$185,000	\$185,000	\$179,589	(\$5,411)
Investment earnings	3,000	3,000	6,870	3,870
Total Revenues	<u>188,000</u>	<u>188,000</u>	<u>186,459</u>	<u>(1,541)</u>
EXPENDITURES				
Current:				
General government	3,000	3,000	2,926	74
Public works	426,700	426,700	175,314	251,386
Total Expenditures	<u>429,700</u>	<u>429,700</u>	<u>178,240</u>	<u>251,460</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(241,700)</u>	<u>(241,700)</u>	<u>8,219</u>	<u>249,919</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)			(364,756)	(364,756)
Total Other Financing Sources (Uses)			<u>(364,756)</u>	<u>(364,756)</u>
NET CHANGE IN FUND BALANCE	<u>(\$241,700)</u>	<u>(\$241,700)</u>	(356,537)	<u>(\$114,837)</u>
Fund balances at beginning of year			<u>502,677</u>	
FUND BALANCE AT END OF YEAR			<u>\$146,140</u>	

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	Miscellaneous Plan									
	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
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%	0.00402%	0.00713%
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	\$188,003	\$356,553
Plan's Covered Payroll	\$713,447	\$723,056	\$673,336	\$672,548	\$774,294	\$903,345	\$841,740	\$806,851	\$953,625	\$947,329
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%	19.71%	37.64%
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%	88.29%	76.68%	76.21%

CITY OF MONTE SERENO
MISCELLANEOUS PLAN – COST-SHARING MULTIPLE-EMPLOYER DEFINED PENSION PLAN
SCHEDULE OF PENSION CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS

	Miscellaneous Plan				
Fiscal Year	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				2024
Actuarially determined contribution	\$ 93,864	\$ 125,384	\$ 82,134	\$ 78,418	\$ 117,287
Contributions in relation to the actuarially determined contributions	(93,864)	(813,146)	(82,134)	(78,418)	(117,287)
Contribution deficiency (excess)		(\$ 687,762)			
Covered payroll	\$ 841,740	\$ 806,851	\$ 953,625	\$ 947,329	\$ 1,369,434
Contributions as a percentage of covered payroll	11.15%	15.54%	8.61%	8.28%	8.56%
Valuation date:	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2021
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			2.30%		
Salary increases			Varies by Entry Age and Service		
Investment rate of return					6.90%, net of pension plan investment and administrative expenses, including inflation

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	2018	2019	2020	2021	2022	2023	2024
Total OPEB Liability (TOL)	\$97,527	\$94,841	\$105,142	\$139,568	\$112,123	\$86,788	\$94,662
Service Cost	25,244	30,267	33,454	29,175	18,555	27,368	33,446
Interest on the total OPEB Liability							
Changes in benefit terms							
Differences between expected and actual experience				(467,951)		30,728	
Changes of assumptions	(33,667)	49,469	212,695	(102,474)	(153,791)	31,328	(36,846)
Benefit Payments	(11,211)	(7,732)	(14,591)	(28,152)	(35,827)	(39,159)	(42,560)
Net change in total OPEB liability	77,893	166,845	336,700	(429,834)	(58,940)	137,053	48,702
Total OPEB liability - beginning	613,233	691,126	857,971	1,194,671	764,837	705,897	842,950
Total OPEB liability - ending (a)	\$691,126	\$857,971	\$1,194,671	\$764,837	\$705,897	\$842,950	\$891,652
Covered payroll	\$774,294	\$903,345	\$841,740	\$806,851	\$957,255	\$906,889	\$774,294
TOL as a percentage of covered employee payroll	89.26%	94.98%	141.93%	94.79%	73.74%	92.95%	115.16%

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.

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City of Monte Sereno
 Note to Budgetary Information
 For the Year Ended June 30, 2024

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 before the fiscal year beginning July 1. As part of the budget process, all City departments submit budget requests for the next fiscal year. These requests are reviewed, and the City Manager prepares a recommended budget showing estimated revenues and expenditures of the City. The proposed budget available to the public for review and comment, and City Council reviews and discusses the proposed budget. Any new appropriation or appropriation transfer between funds or department requires approval by the City Council. During the fiscal year, the City Manager may proposed mid-year changes to the budget, which must be approved by City Council. 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.

The City had the following funds with expenditures in excess of appropriations for the year ended June 30, 2024:

<u>Expenditure</u>	<u>Budgeted Amount Final</u>	<u>Actual Amount</u>	<u>Negative Variance with Final Budget</u>
Law Enforcement Fund	1,192,665	1,315,732	(123,067)

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Supplementary Information
June 30, 2024

City of Monte Sereno

CITY OF MONTE SERENO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2024

	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and investments available for operations	\$6,751		\$21,000	\$27,751
Accounts receivable	5			5
Total Assets	<u>\$6,756</u>		<u>\$21,000</u>	<u>\$27,756</u>
LIABILITIES				
Due to other funds	<u>\$75,658</u>			<u>\$75,658</u>
Total Liabilities	<u>75,658</u>			<u>75,658</u>
FUND BALANCES				
Restricted	<u>(68,902)</u>		<u>\$21,000</u>	<u>(47,902)</u>
Total Fund Balance	<u>(68,902)</u>		<u>21,000</u>	<u>(47,902)</u>
Total Liabilities and Fund Balances	<u>\$6,756</u>		<u>\$21,000</u>	<u>\$27,756</u>

CITY OF MONTE SERENO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2024

	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non -Major Governmental Funds
REVENUES				
Property taxes	\$2,409			\$2,409
Other revenue			\$14,166	14,166
Total Revenues	<u>2,409</u>		<u>14,166</u>	<u>16,575</u>
EXPENDITURES				
Current:				
Public Works & Engineering	2,474	\$651	11,940	15,065
Capital outlay				
Total Expenditures	<u>2,474</u>	<u>651</u>	<u>11,940</u>	<u>15,065</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(65)</u>	<u>(651)</u>	<u>2,226</u>	<u>1,510</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		612		612
Transfers (out)	(81,093)		(71,750)	(152,843)
Total Other Financing Sources (Uses)	<u>(81,093)</u>	<u>612</u>	<u>(71,750)</u>	<u>(152,231)</u>
NET CHANGE IN FUND BALANCES	<u>(81,158)</u>	<u>(39)</u>	<u>(69,524)</u>	<u>(150,721)</u>
Fund balances (deficits) at beginning of year	<u>12,256</u>	<u>39</u>	<u>90,524</u>	<u>102,819</u>
FUND BALANCES AT END OF YEAR	<u><u>(\$68,902)</u></u>	<u><u>39</u></u>	<u><u>\$21,000</u></u>	<u><u>(\$47,902)</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, 2024, and have issued our report thereon dated July 31, 2025.

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 July 31, 2025, 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 July 31, 2025 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
July 31, 2025

CITY OF MONTE SERENO
MEMORANDUM ON INTERNAL CONTROL
FOR THE YEAR ENDED JUNE 30, 2024

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CITY OF MONTE SERENO
MEMORANDUM ON INTERNAL CONTROL
FOR THE YEAR ENDED JUNE 30, 2024

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MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of Monte Sereno, California

In planning and performing our audit of the basic financial statements of the City of Monte Sereno (City) as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control included on the Schedule of Material Weaknesses to be material weaknesses.

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. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedules and Current Status of Prior Year Material Weaknesses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze + Associates

Pleasant Hill, California
July 31, 2025

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2024-01: Pervasive Internal Control Weaknesses Show Insufficient Accounting Resources and Management Thereof

Criteria: For the City to have effective internal controls over financial reporting, it must have accounting resources with sufficient competence to execute accounting duties, maintain financial records and prepare reliable financial statements in accordance with U.S. GAAP, and must be managed appropriately.

Condition: As described in this Schedule of Internal Control Weaknesses, the audit identified numerous and widespread internal control weaknesses across the most fundamental areas of the City’s financial operations. These include a failure to record transactions and perform bank and investment reconciliations, an inability to prepare budgets on a fund basis, and a failure to record prior-year audit adjustments, which is a basic year-end function. The culmination of these issues resulted in delays in basic month-end close procedures and the identification of errors during the financial statement audit process that required material adjustments.

Cause: The pervasive nature of these deficiencies stems from a failure to remediate known issues. The City did not require the development and implementation of basic written policies for critical areas such as journal entries, procurement, or budgeting. Further, the requirement to implement GASB 96 was detailed in prior internal control reports yet staff chose not to allocate time or effort to address it.

Effect: The sheer volume and fundamental nature of these control failures create a reasonable possibility that a material misstatement in the City’s financial statements in accordance with U.S. GAAP will not be prevented, or detected and corrected, thereby impairing the City’s ability to produce accurate, reliable, and timely financial information. This lack of competence has led to direct financial consequences, including as a direct result of failed budgetary controls \$164,775 in fees for corrected parcel tax bills in Fiscal 2024 and 2025.

Recommendation: The City should establish formal, written policies and procedures to address internal control weaknesses in all critical areas within the City’s accounting department.

2024-02: Audit Adjustments for Fiscal 2023

Criteria: Audit adjustments should be recorded in the general ledger immediately upon completion of the prior year’s audit to ensure the fiscal year is closed properly. This allows the opening balances of the new fiscal year to agree with the audited financial statements.

Condition: Information provided by City staff for the Fiscal Year 2024 audit did not include the audit adjustments provided by auditors upon completion of the Fiscal Year 2023 audit.

Cause: Staff asked for clarification and confirmation of the audit adjustments and ultimately did not record the adjustments in the general ledger.

Effect: The failure to record the Fiscal Year 2023 audit adjustments prevented the accurate preparation of financial information for Fiscal Year 2024.

Recommendation: The City must record all audit adjustments for Fiscal 2024 and implement a formal procedure to immediately close the books, ensuring that the opening balances for the subsequent year agree to the audited financial statements.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2024-03: Timely Transaction Recording and Reconciliation

Criteria: To ensure all transactions are recorded and to form a reliable basis for financial reporting, financial transactions should be recorded in the general ledger in a timely manner, which then allows for the reconciliation of bank and investment accounts.

Condition: During the audit, we noted that bank and investment accounts were not reconciled because financial transactions were not being recorded in the general ledger.

Cause: City staff did not record transactions in the general ledger.

Effect: The recording of financial transactions is a fundamental basis for internal control. A key internal control, the monthly reconciliation of bank and investment accounts, could not be performed.

Recommendation: The City should establish and follow formal month-end closing policies and procedures to ensure all transactions are recorded in the general ledger on a timely basis, which will permit the reconciliation of all bank and investment accounts.

2024-04: Written Policies and Procedures for Journal Entries

Criteria: Journal entries should be prepared with appropriate supporting documentation and be subject to review and approval to identify potential errors in amount or classification. Entries must be posted to the correct period to ensure financial reporting accuracy.

Condition: We observed that the City does not have written policies and procedures for the creation, review and posting of journal entries.

Cause: Written policies and procedures were not prepared, even with a full-time Director of Finance. Additionally, the City Manager did not require written policies or procedures related to finance.

Effect: The lack of documented procedures exposes the City to significant risks, including inaccurate financial reporting and unauthorized entries. Without these rules, employees could create inappropriate entries to misappropriate assets, such as moving funds to a fraudulent vendor account. It can lead to material misstatements by misclassifying revenues or misstating assets and liabilities, thereby providing a false picture of the City's financial condition and health.

Recommendation: The City should establish formal, written policies and procedures for journal entries.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2024-05: Journal Entry Descriptions

Criteria: A critical element of internal control is a clear and complete audit trail. Journal entries should have standardized, descriptive explanations that allow a reviewer to understand the transaction’s business purpose and propriety without extensive research, ensuring transparency and reliability as required by GASB.

Condition: Journal entry descriptions were observed to be inconsistent, particularly when different staff created and posted them.

Cause: The City lacks a defined standard for journal entry descriptions, forcing staff to use their own judgment, which leads to variation in quality. This was compounded by a lack of staff understanding regarding the importance of a permanent audit trail. Also, it appears that the City Manager did not require the development of standard journal entries.

Effect: Inconsistent descriptions introduce ambiguity and inefficiency that can conceal errors and complicate financial management. It hinders effective review, making it more likely for inappropriate entries to go unnoticed and slowing the month-end closing process. It also makes it more difficult to investigate potential fraud, as vague descriptions can be used to hide unauthorized transactions. This condition weakens the overall internal control environment and hinders financial analysis and oversight.

Recommendation: The City should develop and require the use of standard journal entry descriptions.

2024-06: Timeliness for Completion of Audit

Criteria: Well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures and the potential impact of unexpected events. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for the analysis of account balances and activities.

Condition: The City’s basic financial statements for the year ended June 30, 2024 were not completed until July 2025.

Cause: Due to the City’s staff turnover, the City was not able to prepare and complete recording financial activities for the audit timely.

Effect: As a result, there were significant delays in the completion of the audit, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased due to the delay and coordination.

Recommendation: The City should analyze staff and other resources for backup plans to ensure that the financial data is processed properly and timely during staffing transitions and unexpected events.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF MATERIAL WEAKNESSES

2024-07: Budgets Not Prepared on a Proper Fund Basis

Criteria: For internal control purposes, the City’s budgets must be prepared on a fund basis, using the same accounting principles as the fund itself.

Condition: During our audit, we had to reconcile from the budgets prepared by the City to each of the funds reported on.

Cause: City staff did not follow standard fund accounting procedures, and no documentation was maintained on how to prepare the budgets.

Effect: Meaningful comparison of actual results to budget could not, and was not, completed.

Recommendation: The City should prepare its budgets for each individual fund.

2024-08: Errors in Parcel Taxes for Police Services

Criteria: A fundamental internal control is the preparation of an accurate budget for recurring and predictable financial items. Comparing actual results to the budget allows for timely investigation of variances. The City’s parcel tax revenue is highly stable and predictable, making it a straightforward item to budget and monitor.

Condition: The City incorrectly requested its parcel tax from the County Assessor for two consecutive years. This error required the County to issue 1,259 corrected tax bills in Fiscal 2024 and 1,276 in Fiscal 2025. The County charged the City \$65.00 for each correction, resulting in total fees of \$164,775 over the two years.

Cause: Staff failed to budget its most stable revenue source accurately. This was compounded by a failure to perform budget-to-actual variance analysis, which would have promptly identified the significant revenue shortfall. Although staff made the clerical error, the City Manager was responsible for internal controls that would identify the error.

Effect: This internal control failure resulted in a direct financial loss to the City of \$164,775 in unnecessary correction fees. Since the error was not detected and resolved in Fiscal 2024, the same costly mistake was repeated in Fiscal 2025, indicating a systemic breakdown in a basic budgetary control.

Recommendation: The City should implement procedures to ensure budget accuracy, particularly for stable revenue sources. Furthermore, management must enforce a requirement to perform monthly budget-to-actual variance analysis and to investigate and resolve significant discrepancies in a timely manner.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2024-09: Preparation and Presentation of Monthly Financial Results

Criteria: Timely financial results should be prepared and presented to City Council for oversight. The most recent financial report for the month ended May 31, 2024, was submitted to City Council for their meeting on August 20, 2024.

Condition: We noted that monthly financial results were not submitted to City Council.

Cause: Staff did not have any desk procedures, monthly close procedures, and did not use the financial reporting software to process transactions.

Effect: Without monthly financial results, City Council is not aware of the financial results of the City. This failure creates an opportunity for financial fraud to go undetected.

Recommendation: The City should prepare timely financial information for management, and present that financial information to City Council for their review and acceptance.

2024-10: Warrant Lists

Criteria: City Council reviews and approves warrant lists prior to the City Manager signing checks. The warrant lists presented to City Council are prepared in Excel and not prepared by the City's financial software.

Condition: Staff does not use functionality within the City's financial reporting software to prepare the warrant lists. Instead, staff use Excel spreadsheets to prepare and present warrant lists to City Council.

Cause: Staff does not use the functionality within the City's financial reporting software to prepare the warrant lists.

Effect: While the Excel-based warrant lists may be accurate, the City is bypassing a fundamental internal control that could prevent unauthorized payments to be made.

Recommendation: All warrant lists should be prepared by the financial accounting software used by the City.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2024-11: Procurement

Criteria: All purchases made by staff should follow the City's procurement regulations.

Condition: We observed purchase of goods and services were made that did not follow the City's procurement regulations.

Cause: Staff chose not to follow the City's procurement regulations and there was no management control to require such procurement regulations to be followed.

Effect: Failure to comply with procurement regulations could result in financial losses for the City.

Recommendation: The City should develop, implement and enforce written procurement policies and procedures.

2024-12: Subscription-Based Information Technology Arrangements

Criteria: Generally accepted accounting principles require governments with subscription-based information technology arrangements (SBITAs) to follow GASB 96.

Condition: The City has a multiple SBITAs but has not accounted for them as required by GASB 96. In our report to the City for Fiscal 2023, we included detailed information on GASB 96.

Cause: Staff did not allocate time or effort to understand, analyze or document the potential impact of SBITAs on the City's financial statements.

Effect: While the amounts may not be material in any one year, the cumulative impact is increasing. With the new cloud-based financial accounting software being implemented, this could cause a material error in Fiscal 2025.

Recommendation: The City should classify its software subscriptions in a separate account, and then analyze its software subscriptions to ensure compliance with GASB 96.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

2024:13: NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We have cited them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2024/25:

GASB 101 – Compensated Absences

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

Recognition And Measurement

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 101 – Compensated Absences (Continued)

Notes To Financial Statements

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

How the Changes in this Statement Will Improve Financial Reporting

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

CITY OF MONTE SERENO

MEMORANDUM ON INTERNAL CONTROL

CURRENT STATUS OF PRIOR YEAR MATERIAL WEAKNESSES

2023-01: Treasurer's Report to City Council

Criteria: The Treasurer's Report is an important element of the City's internal control structure. In order to be an effective control, reconciliations should be completed as soon as reasonably possible after each month-end, usually within 30-45 days of receipt of statements, and subsequently reviewed for accuracy. Errors and un-reconciled differences should be researched, understood and corrected immediately, so as to prevent additional errors and a decrease in efficiency.

Condition: During our audit we noted that the January 2023 Treasurer's Report was not submitted to the City Council until April 2023. The June 30, 2023 Treasurer's Report was not submitted to the City Council until October 2023.

Cause: The City is behind on submitting the Treasurer's Report.

Effect: Without timely completion of the Treasurer's Report, the City Council is not made aware of the current investment position of the City.

Recommendation: The City should consider performing investment account reconciliations on a more frequent basis.

Current Status: See MOIC 2024-01

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CITY OF MONTE SERENO
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED
JUNE 30, 2024

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**CITY OF MONTE SERENO
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2024

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REQUIRED COMMUNICATIONS

To the City Council of
the City of Monte Sereno, California

We have audited the basic financial statements of the City of Monte Sereno (City), California, for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information orally during our discussion with the City Manager on January 13, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Accounting Policies – Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year.

Unusual Transactions, Controversial or Emerging Areas – We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates – Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City’s financial statements were:

Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources: Management’s estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 6 to the financial statements and are based on accounting valuations determined by the California Public Employees Retirement System, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Estimated Total OPEB Liabilities and OPEB-Related Deferred Outflows and Inflows of Resources: Management’s estimate of the Total OPEB liabilities and deferred outflows/inflows of resources are disclosed in Note 7 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimate of Depreciation: Management’s estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 2 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures – The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated July 31, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information that accompanies the financial statements, but is not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Maze + Associates

Pleasant Hill, California
July 31, 2025

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