

**CITY OF MONTE SERENO,  
CALIFORNIA**

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**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

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**CITY OF MONTE SERENO**

**FINANCIAL REPORT  
JUNE 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Notes 12 and 13 to the financial statements, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, and budgetary comparison schedules for the general and major special revenue funds, the schedule of proportionate share of the net pension liability, the schedule of pension contributions and the schedule of changes in total other postemployment benefits liability and related ratios, on pages 39 through 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

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

Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 combining fund financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2019, 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 City's internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Vavrinck, Trine, Day & Co. LLP*

Pleasanton, California  
February 15, 2019

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

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The following provides a narrative overview and analysis of the fiscal operations during the fiscal year ended June 30, 2018 for the City of Monte Sereno. The Management Discussion and Analysis is to be read in conjunction with the Basic Financial Statements.

### FISCAL YEAR 2017-2018 FINANCIAL HIGHLIGHTS

- The City's total net position was \$6,126,556 which decreased from \$6,298,242 in the prior year.
- Total City total revenues were \$3,510,862, while total expenses were \$3,682,548. Total revenues in the prior year were \$3,177,329 and total expenses were \$3,246,089. The increase in revenues was due to increase in property taxes and increase in charges for services.
- The City's Unrestricted Net Position is \$4,838,878, which is available for ongoing operations as well as other capital needs.

### OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is in four parts:

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

### The Basic Financial Statements

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

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

All of the City's activities are required to be grouped into government activities and business-type activities. The entire amount in the Statement of Net Position and Statement of Activities is also required to be separated into governmental activities or business-type activities in order to provide a summary of these two activities as a whole. In the case of the City of Monte Sereno, there are no business-type activities as of June 30, 2018.

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

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

### *The Government-Wide Financial Statements*

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

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

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.

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

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

### **Notes to the Financial Statement:**

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

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

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### Required Supplementary Information

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

### Combining and Individual Fund Statements and Schedules

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

### Government-Wide Analysis

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

Cash and investments decreased by \$6,025 from \$6,835,415 in the prior year to \$6,829,390 in the current year.

Receivables increased by \$6,785 from \$117,575 in the prior year to \$124,360. The change was mainly due to an increase in interest receivable.

The City's pension liabilities decreased by \$459,191 from \$972,944 in the prior year to \$513,753 in the current year because of the pay down of the CalPERS pension liability.

Total OPEB liabilities increased by \$138,526 from \$552,600 in the prior year to \$691,126 due to the implementation of the new OPEB standards.

\$332,235 or 5.4% of the City's net position is invested in capital assets compared to \$348,221 or 5.5% in the prior year (e.g., land, buildings, general government infrastructure, equipment, etc.). There were no major capital asset additions in the current year and the decrease was related to depreciation.

\$4,838,878 or 78.9% of the City's net position is unrestricted compared to \$5,130,481 or 80.7% in the prior year. The unrestricted net position may be used to fulfill ongoing obligations to the City residents and creditors.

\$995,443 or 15.6% of the City's net position is subject to external restriction on how they may be used compared to \$880,173 or 13.8% in the prior year. These restricted assets will be used primarily for capital projects and public safety improvements.

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

**CITY OF MONTE SERENO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

**Statement of Net Position  
Table 1**

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and investments	\$ 6,829,390	\$ 6,835,415
Receivables:		
Taxes	12,930	16,210
Grants	48,742	55,336
Interest	27,362	13,109
Other	35,326	32,920
Capital assets not depreciation	119,888	119,888
Capital assets, net of accumulated depreciation	212,347	228,333
<b>Total Assets</b>	<b>7,285,985</b>	<b>7,301,211</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pensions	682,748	868,413
<b>LIABILITIES</b>		
Accounts payable	143,097	129,976
Compensated absences payable (long-term)	30,356	21,206
Total other postemployment benefits payable (long-term)	691,126	552,600
Net pension liabilities (long-term)	513,753	972,944
<b>Total Liabilities</b>	<b>1,378,332</b>	<b>1,676,726</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to OPEB	28,716	-
Deferred inflows of resources related to pensions	435,129	134,023
<b>Total Deferred Inflows</b>	<b>463,845</b>	<b>134,023</b>
<b>NET POSITION</b>		
Net investment in capital assets	332,235	348,221
Restricted for:		
Capital projects	387,443	323,525
Road and streetlight projects	568,000	556,648
Unrestricted	4,838,878	5,130,481
<b>Total Net Position</b>	<b>\$ 6,126,556</b>	<b>\$ 6,358,875</b>

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

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The City's charges for services increased by \$134,862 from \$499,560 in the prior year to \$634,422 in the current year, mainly because of the additional planning fees collected as a result of annexation and development activity.

Property taxes increase by \$135,211 from \$1,817,876 in the prior year to \$1,953,087 in the current year due to an increase in the assessed valuation for properties within the City.

General government expenses increased by \$525,679 from \$2,075,236 in the prior year to \$2,600,915 in the current year mainly due to increase in pension liabilities.

**Statement of Activities  
Table 2**

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 634,422	\$ 499,560
Operating contributions and grants	279,857	297,381
General revenues:		
Property taxes	1,953,087	1,817,876
Other taxes	400,814	387,493
Other	242,682	175,019
<b>Total revenues</b>	<b>3,510,862</b>	<b>3,177,329</b>
<b>EXPENSES</b>		
General government	2,600,915	2,075,236
Public safety	953,380	936,849
Public works	94,514	100,342
Community development	33,739	25,740
Facilities	-	107,922
<b>Total expenses</b>	<b>3,682,548</b>	<b>3,246,089</b>
<b>Change in net position</b>	<b>(171,686)</b>	<b>(68,760)</b>
<b>Net position beginning of year, as restated</b>	<b>6,298,242</b>	<b>6,427,635</b>
<b>Net position end of year</b>	<b>\$ 6,126,556</b>	<b>\$ 6,358,875</b>

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

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### Major Funds

#### General Fund

General Fund Revenues - Revenues for the year ended June 30, 2018, increased by \$337,948 or 12.5% from the prior fiscal year.

- Property taxes and special assessment taxes increased by \$135,095 or 8.3% from the prior fiscal year.
- Franchise fees increased by \$6,497 or 2.1% from the prior fiscal year.
- Other revenues increased by \$27,448 or 25.9% from the prior fiscal year.
- Licenses and permits increased by \$141,757 or 29.1% from the prior fiscal year.
- Intergovernmental revenues decreased by \$14,259 or 34.4% from the prior fiscal year.

General Fund Expenditures – General governmental expenditures including transfers out for the year ended June 30, 2018 decreased \$39,796 or 1.6% compared to the prior fiscal year mainly due to decrease in pension contributions.

#### Law Enforcement Fund

Law Enforcement Fund Revenues - Law Enforcement Fund revenues, including transfers in for the year ended June 30, 2018, were relatively flat compared to the prior year.

Law Enforcement Fund Expenditures - Law Enforcement Fund expenditures for the year ended June 30, 2018, were comparable to the prior year and in line with the annual budget figures as expected.

#### General Fund Budgetary Highlights

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

Actual revenues were above the budgeted amounts by \$603,227. The large variance was in the property tax (\$298,343 excess over the estimate) – this is attributable to the increase in the assessed property valuation and related taxes.

Interest earnings on the City's money market and reserve fund accounts exceeded the budgeted amount. This increase is attributed to the rise of interest rates in FY 2017-2018.

# CITY OF MONTE SERENO

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

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### *Capital Assets*

The City's investment in capital assets, net of accumulated depreciation, as of June 30, 2018, amounts to \$332,235. This figure does not include City infrastructure such as roads and bridges. These figures may be included in future year's financial statements. There were no significant additions to capital assets in the current fiscal year.

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

### *Long - Term Liabilities*

The City's long-term liabilities consist solely of compensated absences, other postemployment benefits liability, and net pension liabilities in the amount of \$1,235,235, with a decrease of \$311,515 or 20%. The decrease is mainly attributed to the decrease in net pension liability due to the additional pension contributions made during FY2017.

### *Economic Factors*

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

Major initiatives for the fiscal year 2018-19 must take into consideration the current economic climate. The initiatives include:

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

### **REQUEST FOR FINANCIAL INFORMATION**

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

***BASIC FINANCIAL STATEMENTS***

***GOVERNMENT-WIDE FINANCIAL STATEMENTS***

**CITY OF MONTE SERENO**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Governmental Activities
	<u>                    </u>
<b>ASSETS</b>	
Cash and investments	\$ 6,829,390
Receivables:	
Taxes	12,930
Grants	48,742
Interest	27,362
Other	35,326
Capital assets not depreciated	119,888
Capital assets, net of accumulated depreciation	<u>212,347</u>
Total Assets	<u>7,285,985</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>682,748</u>
Total Deferred Outflows of Resources	<u>682,748</u>
<b>LIABILITIES</b>	
Accounts payable	143,097
Compensated absences payable - noncurrent	30,356
Total other postemployment benefits liability	691,126
Net pension liability	<u>513,753</u>
Total Liabilities	<u>1,378,332</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to OPEB	28,716
Deferred inflows of resources related to pensions	<u>435,129</u>
Total Deferred Inflows of Resources	<u>463,845</u>
<b>NET POSITION</b>	
Investment in capital assets	332,235
Restricted for:	
Capital projects	387,443
Road and streetlight projects	568,000
Unrestricted	<u>4,838,878</u>
Total Net Position	<u>\$ 6,126,556</u>

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

**CITY OF MONTE SERENO**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Contributions and Grants	Total Governmental Activities
Governmental Activities:				
General government	\$ 2,600,915	\$ 375,647	\$ -	\$ (2,225,268)
Public safety	953,380	-	175,981	(777,399)
Public works	94,514	-	103,876	9,362
Community development	33,739	258,775	-	225,036
Total Governmental Activities	<u>\$ 3,682,548</u>	<u>\$ 634,422</u>	<u>\$ 279,857</u>	<u>(2,768,269)</u>

General Revenues:

Taxes:	
Property tax	1,953,087
Sales tax	11,922
Franchise tax	310,822
Real property transfer tax	78,070
Unrestricted investment earnings	84,891
Other revenue	157,791
Total general revenues	<u>2,596,583</u>
Change in net position	(171,686)
Net position, beginning of year, as restated	<u>6,298,242</u>
Net position, end of year	<u>\$ 6,126,556</u>

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

***FUND FINANCIAL STATEMENTS***

**CITY OF MONTE SERENO**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	General	Law Enforcement Fund	Total Nonmajor Funds	Totals Governmental Funds
<b>ASSETS:</b>				
Cash and investments	\$6,445,185	\$ 4	\$ 384,201	\$ 6,829,390
Receivables:				
Taxes	12,930	-	-	12,930
Grants	-	48,742	-	48,742
Interest	27,362	-	-	27,362
Other	22,977	-	12,349	35,326
Total Assets	<u>\$6,508,454</u>	<u>\$ 48,746</u>	<u>\$ 396,550</u>	<u>\$ 6,953,750</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 92,851	\$ 48,746	\$ 1,500	\$ 143,097
Total Liabilities	<u>92,851</u>	<u>48,746</u>	<u>1,500</u>	<u>143,097</u>
<b>FUND BALANCES:</b>				
Restricted	560,393	-	395,050	955,443
Assigned	127,162	-	-	127,162
Unassigned	5,728,048	-	-	5,728,048
Total Fund Balances	<u>6,415,603</u>	<u>-</u>	<u>395,050</u>	<u>6,810,653</u>
Total Liabilities and Fund Balances	<u>\$6,508,454</u>	<u>\$ 48,746</u>	<u>\$ 396,550</u>	<u>\$ 6,953,750</u>

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

**CITY OF MONTE SERENO  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
JUNE 30, 2018**

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Fund Balances of Governmental Funds	\$ 6,810,653
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets of governmental activities are not financial resources and therefore are not reported in the governmental funds.	332,235
The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:	
Compensated absences	(30,356)
Net pension liability	(513,753)
Total other postemployment liability	(691,126)
Deferred outflows of resources related to pension liabilities are not accounted for in the governmental funds.	682,748
Deferred inflows of resources related to pension liabilities are not accounted for in the governmental funds.	(435,129)
Deferred inflows of resources related to OPEB liabilities are not accounted for in the governmental funds.	(28,716)
Net Position of Governmental Activities	<u>\$ 6,126,556</u>

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

**CITY OF MONTE SERENO**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	General	Law Enforcement Fund	Total Nonmajor Funds	Totals Governmental Funds
<b>REVENUES:</b>				
Property and special assessment taxes	\$ 1,768,115	\$ 181,467	\$ 3,505	\$ 1,953,087
Sales tax	11,922	-	-	11,922
Gas tax	-	-	95,506	95,506
Franchise fee	310,822	-	-	310,822
Real property transfer tax	78,070	-	-	78,070
Licenses and permits	629,429	-	-	629,429
Fines and penalties	4,993	-	-	4,993
Investment earnings	82,890	-	2,001	84,891
Intergovernmental \ Other agencies	27,235	148,746	-	175,981
Current service charges	-	-	8,370	8,370
Other revenue	133,433	-	24,358	157,791
<b>Total Revenues</b>	<b>3,046,909</b>	<b>330,213</b>	<b>133,740</b>	<b>3,510,862</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	2,413,788	-	1,684	2,415,472
Public safety	14,285	939,095	-	953,380
Public works	52,019	-	42,495	94,514
Community development	33,739	-	-	33,739
Capital outlay	-	-	26,118	26,118
<b>Total Expenditures</b>	<b>2,513,831</b>	<b>939,095</b>	<b>70,297</b>	<b>3,523,223</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	533,078	(608,882)	63,443	(12,361)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	608,882	-	608,882
Transfers out	(608,882)	-	-	(608,882)
<b>Total Other Financing Sources (Uses)</b>	<b>(608,882)</b>	<b>608,882</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(75,804)</b>	<b>-</b>	<b>63,443</b>	<b>(12,361)</b>
Fund Balances, Beginning of Year	6,491,407	-	331,607	6,823,014
<b>Fund Balances, End of Year</b>	<b>\$ 6,415,603</b>	<b>\$ -</b>	<b>\$ 395,050</b>	<b>\$ 6,810,653</b>

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

**CITY OF MONTE SERENO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

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Net Change in Fund Balances - Total Governmental Funds \$ (12,361)

Amounts reported for governmental activities in the Statement of Activities differ from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Governmental funds report capital assets as expenditures, but in the Statement of Activities the cost of the assets are allocated over their estimated useful lives as depreciation expense or allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	1,725
Depreciation expense	(17,711)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This activity is reconciled as follows:

Compensated absences	(9,150)
OPEB liabilities	(106,609)
Pension expense	(27,580)
Change in Net Position of Governmental Activities	<u>\$ (171,686)</u>

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

**CITY OF MONTE SERENO**

**STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2018**

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	<u>Performance Surety Agency Fund</u>
<b>ASSETS</b>	
Restricted cash and investments	<u>\$          27,115</u>
<b>LIABILITIES</b>	
Deposits held for others	<u>\$          27,115</u>

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

***NOTES TO THE FINANCIAL STATEMENTS***

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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### *NOTE 1 – GENERAL*

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

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

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

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

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

#### **B. Basis of 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. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

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

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

Additionally, the City reports the following fund types:

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

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

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

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

### **C. 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.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

The fiduciary fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

**D. Capital Assets**

Capital assets, which include property, plant and equipment, are stated at cost. Donated assets are recorded at their estimated acquisition value at the date of donation. The City defines capital assets as assets with an initial cost of more than \$1,000 and an estimated useful life greater than one year. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 Years
Vehicles	4-10 Years
Furniture, fixtures, and equipment	5-50 Years

**E. 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.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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*NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)*

**F. Interfund Transactions**

With City Manager approval, resources may be transferred from one City fund to another. Transfers (1) are used to move revenues from the fund that statute or budget requires collecting them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**G. Property Taxes**

The County of Santa Clara assesses all properties; and it bills, collects, and distributes property taxes and special assessments as follows:

	<u>Secured/Unsecured</u>
Lien dates	January 1
Levy dates	June 30
Due dates	50% on November 1 and February 1
Delinquent as of	December 10 and April 10

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenue is recognized in accordance with applicable GASB pronouncements, that is in the fiscal year for which the taxes have been levied, provided they become available. Available means (a) due, or (b) past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period. The County of Santa Clara remits the entire amount of the tax levy to the City (net of County administrative fees), and handles all delinquencies, retaining any interest and penalties.

**H. Compensated Absences**

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

**I. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**J. Cash and Cash Equivalents**

For financial statement reporting purposes, the City considers cash and cash equivalents as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Because the only investment held by the funds is the Local Agency Investment Fund (LAIF), which meets the definition of a cash equivalent, the entire pooled balance is reported as “cash and investments.”

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

#### **K. Fund Balance Classification:**

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

*Nonspendable:* This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City did not have any nonspendable resources as of June 30, 2018.

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

*Committed:* This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2018.

*Assigned:* This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or the City manager, to whom this authority has been formally delegated by the City council. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

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

#### **L. Use of Restricted Resources**

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

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

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

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

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

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

### *NOTE 3 – CASH AND INVESTMENTS*

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

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

Cash and cash equivalents as of June 30, 2018, consist of the following:

Cash on hand	\$ 120
Cash with financial institutions	492,795
Investments	6,363,590
Total Deposits and Investments	<u>\$ 6,856,505</u>

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

#### Cash and Investments

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 6,829,390
Fiduciary funds:	
Cash and investments	27,115
Total Cash and Investments	<u>\$ 6,856,505</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, 2018.

#### 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:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65 Million

#### Interest Rate Risk

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

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

As of June 30, 2018, the City had the following investments. All investments are in the State’s investment pool.

Investment Type	Fair Value	Average Maturity
State Investment Pool	\$ 6,363,590	193

### 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, 2018, the City's bank balance of \$492,222, with a bank balance of \$770,737, is either insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City’s name.

### Custodial Credit Risk - Investments

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

### Investment in the State Investment Pool

The City is a voluntary participant in the LAIF that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in the pool is reported in the accompanying financial statement at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, and is recorded on the amortized cost basis. The pool is not registered with the Securities and Exchange Commission (SEC).

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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The City recognizes the fair value measurement of its investments on a recurring basis, based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments in the Local Agency Investment Funds/State Investment Pool are not measured using the input levels above because the City's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

***NOTE 4 – INTERFUND TRANSFERS***

With Council approval, resources may be transferred from one City fund to another. Transfers (1) are used to move revenues from the fund that statute or budget requires to be collected to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 608,882
Special Revenue Funds:		
Law Enforcement Fund	<u>608,882</u>	<u>-</u>
Total	<u>\$ 608,882</u>	<u>\$ 608,882</u>

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 5 – CAPITAL ASSETS**

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

The following table presents the capital assets activity for the year ended June 30, 2018.

	Beginning Balance	Additions	Transfers/ Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 119,888	\$ -	\$ -	\$ 119,888
Total Capital Assets Not Being Depreciated	119,888	-	-	119,888
Capital Assets, Being Depreciated:				
Buildings and improvements	409,663	-	-	409,663
Computer equipment	51,428	1,725	(18,533)	34,620
Office equipment	24,619	-	18,533	43,152
Total Capital Assets Being Depreciated	485,710	1,725	-	487,435
Less Accumulated Depreciation For:				
Buildings and improvements	206,672	8,125	(135)	214,662
Computer equipment	41,879	6,324	(23,585)	24,618
Office equipment	8,826	3,262	23,720	35,808
Total Accumulated Depreciation	257,377	17,711	-	275,088
Total Capital Assets, Being Depreciated, Net	228,333	(15,986)	-	212,347
Governmental Activities Capital Assets, Net	<u>\$ 348,221</u>	<u>\$ (15,986)</u>	<u>\$ -</u>	<u>\$ 332,235</u>

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

General government	\$ 17,711
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**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 6 – PENSION PLAN**

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

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

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<b>Miscellaneous</b>	
	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	7.000%	6.250%
Required employer contribution rates	8.418%	6.533%

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

For the year ended June 30, 2018, the contributions to the Plan were \$59,622.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

*NOTE 6 – PENSION PLAN (Continued)*

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

As of June 30, 2018, the City’s reported net pension liability for its proportionate share of the pension liability of the Plan is as follows:

Proportionate Share of Net Pension Liability	<u>Miscellaneous</u> \$ 513,753
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The City’s net pension liability for the Plan is measured as the proportionate share of the collective net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 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, 2016 rolled forward to June 30, 2017 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.

At June 30, 2017 measurement date, the City’s proportionate share of the net pension liability was 0.00518 percent, which was a decrease of 0.00606 percent from its proportion of 0.01124 percent measured as of June 30, 2016.

In the current fiscal year, the City recognized pension expense of \$695,548. At June 30, 2018, 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	\$ 59,622	\$ -
Contributions in excess of proportionate share	368,875	(2,069)
Changes in assumptions	206,002	(15,708)
Difference in expected and actual experience	1,660	(23,787)
Adjustment due to differences in proportions	-	(393,565)
Net differences between projected and actual earnings on plan investments	46,589	-
Total	<u>\$ 682,748</u>	<u>\$ (435,129)</u>

The amount of \$59,622 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, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30	
2019	\$ 37,245
2020	111,355
2021	67,059
2022	<u>(27,662)</u>
	<u>\$ 187,997</u>

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 6 – PENSION PLAN (Continued)

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return <sup>(1)</sup>	7.15%
Mortality <sup>(2)</sup>	Derived using CalPERS membership for data for all funds

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

(2) The mortality table used for Miscellaneous and Safety Plans were developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale AA. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was reduced from 7.65% to 7.15%, in the 2017 measurement due to change in assumption. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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.

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.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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*NOTE 6 – PENSION PLAN (Continued)*

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1-10</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100.0%</u>		

***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	6.15%
Net Pension Liability	\$ 1,192,795
Current Discount Rate	7.15%
Net Pension Liability	\$ 513,753
1% Increase	8.15%
Net Pension Liability	\$ (48,641)

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

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS**

***Postemployment Healthcare Plan (OPEB)***

*Plan Description* – The City’s defined benefit postemployment healthcare plan is a single-employer defined benefit plan provides medical benefits to employees and their spouses who satisfy the requirements for retirement under CalPERS (attained age 50 with five years of service or satisfaction of the requirements for a disability retirement.) No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. Separate financial statements are not issued for the plan.

*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 June30, 2018 valuation dates, the following employees were covered by the benefit terms for the OPEB Plan:

Inactives current receiving benefits	1
Inactives entitled to but not yet receiving benefits	2
Active employees	<u>6</u>
Total	<u><u>9</u></u>

*Total OPEB Liability* – The City’s Total OPEB liability was measured as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2018 that was based on the following actuarial methods and assumptions:

Contribution Policy	No pre-funding
Discount Rate	3.87% at June 30, 2018
Inflation	2.75% annually
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-Retirement mortality projected fully generational with Scale MP-17
Healthcare Trend Cost Rate	Non-Medicare - 7.5% trending down to an ultimate 4.0% Medicare - 6.5% trending down to an ultimate 4.0%

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

	<b>Total OPEB Liability</b>
Balance at 6/30/17	<u>\$ 613,233</u>
Changes for the year	
Service Cost	97,527
Interest	25,244
Assumption changes	(33,667)
Benefit payments*	<u>(11,211)</u>
Net Changes	<u>77,893</u>
Balance at 6/30/18	<u><u>\$ 691,126</u></u>

\* Includes \$7,211 cash benefit payments and \$4,000 implied subsidy benefit payments by the City.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

*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 (2.87%) or one percentage point higher (4.87%) than the current rate, for year ended June 30, 2018:

	Discount Rate		
	1% Decrease (2.87%)	Current Rate (3.87%)	1% Increase (4.87%)
Total OPEB Liability	\$ 817,378	\$ 691,126	\$ 590,431

*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, 2018:

	Healthcare Trend Rate		
	1% Decrease Non-Medicare 6.5% Medicare 5.5% Both decreasing to 3.0%	Current Rate Non-Medicare 7.5% Medicare 6.5% Both decreasing to 4.0%	1% Increase Non-Medicare 8.5% Medicare 7.5% Both decreasing to 5.0%
Total OPEB Liability	\$ 574,107	\$ 691,126	\$ 842,361

*Expense and Deferred Outflows/Inflows of Resources Related to OPEB Under GASB Statement No. 75* – For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$117,844. As of fiscal year ended June 30, 2018, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	-	\$ 28,716
Total	\$ -	\$ 28,716

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

Year June 30	Deferred outflows (inflows) of resources
2019	\$ (4,951)
2020	(4,951)
2021	(4,951)
2022	(4,951)
2023	(4,951)
2024	(3,961)
Total	\$ (28,716)

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

The City is involved as a defendant in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no materially adverse effect on the financial position of the City.

The City may receive State and Federal funds for specific purposes that are subject to audit by the grantor agencies. Such audits could generate expenditure disallowances under the terms of the grants. It is believed that any required reimbursements would not be material.

The City participates in a Public Entity Risk Pool. See Note 10 for details.

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

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

	Non-Major Governmental Funds					Total
	General Fund	Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	
<b>Fund Balances:</b>						
<b>Restricted for:</b>						
Capital projects	\$ -	\$ 314,301	\$ -	\$ -	\$ 73,142	\$ 387,443
Road impact fees	560,393	-	6,753	854	-	568,000
<b>Total Restricted:</b>	<u>560,393</u>	<u>314,301</u>	<u>6,753</u>	<u>854</u>	<u>73,142</u>	<u>955,443</u>
<b>Assigned for:</b>						
Traffic Safety	127,162	-	-	-	-	127,162
<b>Total Assigned:</b>	<u>127,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,162</u>
<b>Unassigned:</b>	5,728,048	-	-	-	-	5,728,048
<b>Total fund balances</b>	<u>\$ 6,415,603</u>	<u>\$ 314,301</u>	<u>\$ 6,753</u>	<u>\$ 854</u>	<u>\$ 73,142</u>	<u>\$ 6,810,653</u>

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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### *NOTE 10 – RISK MANAGEMENT*

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

No claims have exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained to date.

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

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

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

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

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

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

This program is a joint venture with the cities of Campbell, Santa Clara, Mountain View, and Monte Sereno to own, manage, operate and maintain the Animal Control Services in the area in order to provide the residents with more efficient and economical animal control services. SVACA is administered by a Board of Directors consisting of four Directors, one each appointed by the Legislative Body of the cities of Santa Clara, Campbell, Mountain View, and Monte Sereno. Costs of the program are allocated in proportions to the population of the member agency, the amount of licensed animals owned or kept by residents of the member agency, and the total number of days that an animal from each member agency is held at the current animal shelter facility. During the current year Monte Sereno's proportional share of those costs was 1.66% and is expected to be 1.20% for the fiscal year 2018-2019.

Audited financial statements are available from these entities.

### *NOTE 12 – NEW GASB PRONOUNCEMENTS*

#### **A. Effective this fiscal year**

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). This Statement is effective for fiscal years (FY) beginning after June 15, 2017, or the FY2017/2018. The City has implemented this Statement as of July 1, 2017.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016 or FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other postemployment benefits). The Statement is effective for the reporting periods beginning after June 15, 2017, or FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

#### **B. Effective in Future Fiscal Year**

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the FY 2018/2019. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance related to fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the FY 2019/2020. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or FY 2020/2021. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 88 – GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018 or FY 2018/2019. The City is evaluating the impact of this Statement on the financial statements.

# CITY OF MONTE SERENO

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

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

#### **Effective in Future Fiscal Year, (continued)**

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or FY 2020/2021. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objectives of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government’s holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or FY 2019/2020. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or FY 2020/2021. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objectives of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government’s holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or FY 2019/2020. The City is evaluating the impact of this Statement on the financial statements.

**CITY OF MONTE SERENO**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 13 – RESTATEMENT OF BEGINNING BALANCES**

As discussed under Note 1, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2017. Refer to Note 7 for further disclosures related to the plan and related balances. As a result of the implementation, the City restated beginning net position for governmental activities as noted below:

	<b>Governmental Activities</b>
Net Position, beginning of year, as previously reported	\$ 6,358,875
GASB Statement No. 75 impact on Other Postemployment Benefit (OPEB) Liability	(60,633)
Net Position, beginning of year, as restated	<u>\$ 6,298,242</u>

Following is the pro forma effect of the retroactive application:

<b>Governmental Activities</b>	June 30, 2017 Previously Presented	Restatement	June 30, 2017 Restated
OPEB obligation	\$ 552,600	\$ (552,600)	\$ -
Total OPEB liability	-	613,233	613,233

***REQUIRED SUPPLEMENTARY INFORMATION***

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

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

	Budgeted Amounts Original/Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Property tax	\$ 1,469,772	\$ 1,768,115	\$ 298,343
Sales tax	12,000	11,922	(78)
Franchise fee	284,810	310,822	26,012
Real property transfer tax	51,500	78,070	26,570
Licenses and permits	503,000	629,429	126,429
Fines and penalties	15,000	4,993	(10,007)
Investment earnings	20,000	82,890	62,890
Intergovernmental \ Other agencies	3,700	27,235	23,535
Other revenue	83,900	133,433	49,533
<b>Total Revenues</b>	<b>2,443,682</b>	<b>3,046,909</b>	<b>603,227</b>
<b>EXPENDITURES</b>			
Current:			
General government	2,907,042	2,413,788	493,254
Public safety	10,000	14,285	(4,285)
Public works	63,000	52,019	10,981
Community development	35,000	33,739	1,261
<b>Total Expenditures</b>	<b>3,015,042</b>	<b>2,513,831</b>	<b>501,211</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(571,360)</b>	<b>533,078</b>	<b>1,104,438</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(608,882)	(608,882)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(608,882)</b>	<b>(608,882)</b>
<b>Net Change in Fund Balance</b>	<b>(571,360)</b>	<b>(75,804)</b>	<b>(632,807)</b>
Fund Balance, Beginning of Year	6,491,407	6,491,407	-
<b>Fund Balance, End of Year</b>	<b>\$ 5,920,047</b>	<b>\$ 6,415,603</b>	<b>\$ (632,807)</b>

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

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

	Budgeted Amounts Original/Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>			
Property tax and special assessment taxes	\$ 183,150	\$ 181,467	\$ (1,683)
Intergovernmental \ Other agencies	100,000	148,746	48,746
Total Revenues	<u>283,150</u>	<u>330,213</u>	<u>47,063</u>
<b>EXPENDITURES</b>			
Current:			
Public safety	890,402	939,095	(48,693)
Total Expenditures	<u>890,402</u>	<u>939,095</u>	<u>(48,693)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(607,252)</u>	<u>(608,882)</u>	<u>(1,630)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	607,252	608,882	1,630
Total Other Financing Sources (Uses)	<u>607,252</u>	<u>608,882</u>	<u>1,630</u>
Net Change in Fund Balance	-	-	-
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the collective net pension liability	0.00518%	0.01124%	0.01091%	0.01204%
Proportionate share of the collective net pension liability	\$ 513,753	\$ 972,944	\$ 748,563	\$ 749,395
Covered payroll	672,548	673,336	723,056	713,447
Proportionate share of the collective net pension liability as a percentage of covered payroll	76.39%	144.50%	103.53%	105.04%
Plan fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%
Discount rate	7.15%	7.65%	7.65%	7.50%
Measurement date	06/30/17	06/30/16	06/30/15	06/30/14

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

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

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**Miscellaneous Plan  
Cost-Sharing Multiple-Employer Defined Pension Plan  
Schedule of Pension Contributions  
As of June 30, For the Last Ten Fiscal Years\*\***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 59,622	\$ 667,968	\$ 121,561	\$ 111,286
Contributions in relation to the actuarially determined contributions	<u>(59,622)</u>	<u>(667,968)</u>	<u>(121,561)</u>	<u>(111,286)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 774,294	\$ 672,548	\$ 673,336	\$ 723,056
Contributions as a percentage of covered payroll	7.70%	99.32%	18.05%	15.39%

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

**CITY OF MONTE SERENO**

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018**

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**Schedule of Changes in Total Other Post-Employment Benefits  
Liability and Related Ratios  
As of June 30, for the Last Ten Fiscal Years\*\***

	<u>2018</u>
Total OPEB Liability	
Service Cost	\$ 97,527
Interest	25,244
Assumption changes	(33,667)
Benefit payments	<u>(11,211)</u>
Net Changes	77,893
Total OPEB liability - beginning of year	<u>613,233</u>
Total OPEB liability - ending of year	<u><u>\$ 691,126</u></u>
Covered employee payroll	\$ 774,294
Total OPEB liability as a percentage of covered employee payroll	89.26%

\*\* Fiscal year 2018 was the 1st year of implementation.

# **CITY OF MONTE SERENO**

## **REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018**

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### **NOTE TO BUDGETARY INFORMATION**

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

***SUPPLEMENTARY INFORMATION***

**CITY OF MONTE SERENO**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018**

	Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non-major Governmental Funds
<b>ASSETS:</b>					
Cash and investments	\$ 312,217	\$ 6,753	\$ 854	\$ 64,377	\$ 384,201
Receivables:					
Other	3,584	-	-	8,765	12,349
<b>Total Assets</b>	<u>\$ 315,801</u>	<u>\$ 6,753</u>	<u>\$ 854</u>	<u>\$ 73,142</u>	<u>\$ 396,550</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500
<b>Total Liabilities</b>	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
<b>FUND BALANCES:</b>					
Restricted	314,301	6,753	854	73,142	395,050
<b>Total Fund Balances</b>	<u>314,301</u>	<u>6,753</u>	<u>854</u>	<u>73,142</u>	<u>395,050</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 315,801</u>	<u>\$ 6,753</u>	<u>\$ 854</u>	<u>\$ 73,142</u>	<u>\$ 396,550</u>

**CITY OF MONTE SERENO**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	Gas Tax Fund	Loma Serena Street Lighting Fund	Rose Andrews Street Lighting Fund	Storm Drainage Fund	Total Non-major Governmental Funds
<b>REVENUES</b>					
Property tax	\$ -	\$ 2,287	\$ 1,218	\$ -	\$ 3,505
Gas tax	95,506	-	-	-	95,506
Investment earnings	2,001	-	-	-	2,001
Current service charges	-	-	-	8,370	8,370
Other revenue	-	-	-	24,358	24,358
<b>Total Revenues</b>	<b>97,507</b>	<b>2,287</b>	<b>1,218</b>	<b>32,728</b>	<b>133,740</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,684	-	-	-	1,684
Public works and facilities	6,898	2,531	1,449	31,617	42,495
Capital outlay	13,186	-	-	12,932	26,118
<b>Total Expenditures</b>	<b>21,768</b>	<b>2,531</b>	<b>1,449</b>	<b>44,549</b>	<b>70,297</b>
Net Change in Fund Balances	75,739	(244)	(231)	(11,821)	63,443
Fund Balances, Beginning of Year	238,562	6,997	1,085	84,963	331,607
<b>Fund Balances, End of Year</b>	<b>\$ 314,301</b>	<b>\$ 6,753</b>	<b>\$ 854</b>	<b>\$ 73,142</b>	<b>\$ 395,050</b>



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monte Sereno, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 15, 2019. Our report included an emphasis of matter regarding the City's adoption of Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Vavrinek, Trine, Day & Co. LLP*

Pleasanton, California

February 15, 2019