Report of Independent Auditors
and Financial Statements

Monterey County 457(b) Deferred Compensation Plan

December 31, 2023 and 2022

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Report of Independent Auditors

The Administrative Committee
Monterey County 457(b) Deferred Compensation Plan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Monterey County 457(b) Deferred Compensation Plan (the Plan) which comprise the statement of fiduciary net position as of December 31, 2023 and 2022, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective statement of fiduciary net position of Monterey County 457(b) Deferred Compensation Plan as of December 31, 2023 and 2022 and the respective changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the Plan's financial statements. Such missing information, although not part of the Plan's 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. Our opinion on the Plan's financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August ____, 2024, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the Plan's internal control over financial reporting and compliance.

Salinas, California
August __, 2024

Monterey County 457(b) Deferred Compensation Plan
Statements of Fiduciary Net Position
December 31, 2023 and 2022

	2023	2022
ASSETS		
Investments, at fair value		
Mutual funds	$ 281,651,577	$ 219,854,527
Self-directed brokerage accounts	9,773,529	6,814,915
Total investments, at fair value	291,425,106	226,669,442
Investment, at contract value		
Fixed account	83,881,283	94,429,079
Total investments	375,306,389	321,098,521
Notes receivable from participants	5,409,485	5,094,186
NET POSITION HELD IN TRUST FOR PARTICIPANTS	$ 380,715,874	$ 326,192,707

See accompanying notes to these financial statements.

Monterey County 457(b) Deferred Compensation Plan
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
INVESTMENT INCOME (LOSS)		
Net appreciation (depreciation) in fair value of investments	$ 38,135,229	$ (51,590,568)
Dividends and interest	6,985,529	7,209,329
Net investment income (loss)	45,120,758	(44,381,239)
INTEREST INCOME ON NOTES RECEIVABLE FROM PARTICIPANTS	302,202	228,894
OTHER INCOME	171,348	102,714
CONTRIBUTIONS		
Participant	25,578,838	24,267,175
Rollovers	1,830,740	3,030,665
Total contributions	27,409,578	27,297,840
DEDUCTIONS		
Benefits paid to participants	17,771,468	21,483,789
Administrative expenses	709,251	588,735
Total deductions	18,480,719	22,072,524
CHANGE IN NET POSITION	54,523,167	(38,824,315)
NET POSITION HELD IN TRUST FOR PARTICIPANTS		
Beginning of year	326,192,707	365,017,022
End of year	$ 380,715,874	$ 326,192,707

Note 1 – Description of Plan

The following brief description of the Monterey County 457(b) Deferred Compensation Plan (the Plan) is for general information purposes only. Participants should refer to the respective plan document for a more complete description of the Plan's provisions.

General – The Plan was established February 14, 1984, and has been amended to conform to changes in governmental regulations. The Plan is a deferred compensation plan under Section 457(b) of the Internal Revenue Code (IRC) and covers substantially all employees of the County of Monterey. Amounts maintained under a deferred compensation plan, by a state or local government, are held in trust for the exclusive benefit of plan participants and their beneficiaries. As of December 31, 2023, there were 4,889 participants with balances in the Plan.

The Plan is administered by the County of Monterey Deferred Compensation Administrative Committee (the Committee). The Monterey County Board of Supervisors (the Board) delegates to the Committee all duties and powers identified as belonging to the Employer(s) in accordance with the plan document.

Eligibility – Employees of the County are eligible to participate in the Plan as of any enrollment date following their hire date.

Contributions

Each year, participants may contribute between 1% and 100% of pretax annual compensation, as defined in the plan document through payroll deductions. Participants may also contribute amounts representing rollovers from other qualified plans. Contributions are subject to regulatory limitations.

Participants who have attained age 50 before the end of the year are eligible to make standard catch-up contributions. The Plan also provides participants with a "special catch-up" election in one or more of the last three years ending before the year in which they attain normal retirement age. Under this special catch-up provision, the participant can defer two times the applicable dollar limit in effect for that year ($45,000 and $41,000 in 2023 and 2022, respectively), but only to the extent the participant has not previously deferred the maximum amount under the Plan in prior years. Participants may not use both the standard catch-up and special catch-up provisions in the same year.

Contributions are subject to regulatory limitations.

Vesting – Participants are immediately vested in their contributions and earnings thereon.

Participant accounts – Each participant's account is credited with the participant's contributions and investment earnings. Participant accounts are charged with an allocation of administrative expenses that are paid by the Plan. Allocations are based on participant earnings, account balances, or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Participants direct the investment of their account into various investment options offered by the Plan.

Note 1 – Description of Plan (continued)

Investment policy – The Plan's Investment Policy Statement is established by the Board of Supervisors and sets the goals and objectives of the investment options to be included in the Plan. The investment policy's purpose is to guide the Deferred Compensation Administrative Committee in effectively supervising, monitoring, and managing the investments of the Plan. Among the investment policy's objectives are the following:

- To provide participants with a prudent menu of investment options to diversify their investment portfolios in order to efficiently achieve reasonable financial goals for retirement.
- To administer the Plan in an efficient manner such that participants are able to monitor their individual portfolios and make suitable adjustments in a timely manner.
- To provide competitive investment options in major asset classes at a reasonable cost.
- To establish criteria and procedures for the evaluation of the investments offered, which are consistent with prudent investment management and participants' needs for diverse investment options.
- To establish procedures for the selection, evaluation, review, and elimination of fund options and the expectations regarding each fund option.

Notes receivable from participants – Participants may borrow from their accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balance. The loans are issued by the Plan and secured by the balance in the participant's account. All loans must be repaid within a period of five years, unless the loan is used to purchase a principal residence, in which case, the loan must be repaid within a reasonable period of time not to exceed 15 years. Under the terms of the Plan's loan policy, plan loans bear a rate of interest based on the published Prime Rate plus 1% at loan inception, plus a Nationwide Life Insurance Company (Nationwide) asset management charge of 0.025%. As of December 31, 2023, the rates of interest on outstanding loans range from 3.250% to 9.525%, with various maturities through November 2038.

Payment of benefits – Payments are made to participants or beneficiaries upon termination of service due to death, disability, or retirement, or in the event of an unforeseeable emergency. A participant will receive an amount equal to the value of the participant's account balance in a lump-sum or periodic payments at the option of the participant or their beneficiary.

Note 2 – Significant Accounting Policies

Basis of accounting – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America in accordance with accounting standards promulgated by the Governmental Accounting Standards Board (U.S. GAAP), using the accrual method of accounting.

Note 2 – Significant Accounting Policies (continued)

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that may affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment valuation – Investments are stated at fair and contract value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Contract value is the relevant measurement for assets invested in investment contracts because contract value is the amount participants normally would receive if they were to initiate permitted transactions under the terms of the Plan. See Note 4 for discussion of the Plan's contract value investment.

Income recognition – Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. Net appreciation (depreciation) in fair value of investments consists of both the realized gains and losses and unrealized appreciation and depreciation of those investments.

Notes receivable from participants – Notes receivable from participants are measured at amortized cost, which represents unpaid principal balance plus accrued but unpaid interest. Delinquent notes receivable from participants are reclassified as distributions upon the occurrence of a distributable event, based on the terms of the plan document. No allowance for credit losses has been recorded as of December 31, 2023 or 2022.

Payment of benefits – Benefits are recorded when paid.

Administrative expenses – Certain expenses of maintaining the Plan are paid directly by the County of Monterey and are excluded from these financial statements. Under terms of the Nationwide contract, an asset-based fee of 4.0 basis points (0.04%) is assessed by Nationwide on behalf of the Plan to cover administrative expenses. Participants are assessed separate fees for the administration of loans and repayments thereof, certain distributions, as well as self-directed brokerage account fees. The assessed fees are maintained in a separate unallocated asset account within the Plan and used to pay administrative expenses.

As of December 31, 2023 and 2022, the balance in the unallocated expense account totaled $72,934 and $34,035, respectively. During the year ended December 31, 2023 and 2022, assessed fees totaling $171,348 and $102,714, respectively, were received by the Plan and are reported as other income. The Plan used assessed fees totaling $132,448 and $87,388 to pay qualified plan expenses during the year ended December 31, 2023 and 2022, respectively.

Note 3 – Fair Value Measurements

The Plan categorizes the fair value measurement of investment assets within the fair value hierarchy established by U.S. GAAP. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. There were no changes to the methodology used during the year ended December 31, 2023 or 2022.

Following is a description of the valuation techniques used for assets measured at fair value.

Mutual funds – Shares in mutual funds and money market funds (registered investment companies) are valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Plan are deemed to be actively traded. Mutual funds and money market funds held by the Plan are open-ended funds that are registered with the U.S. Securities and Exchange Commission.

Self-directed brokerage accounts – Self-directed brokerage accounts, offered through Charles Schwab Corporation, allow participants to select from numerous mutual funds, common stocks, and exchange-traded funds, which are valued at the closing price reported on active markets on which the individual securities are traded.

Note 3 – Fair Value Measurements (continued)

The following tables disclose the fair value hierarchy of the Plan's assets by level:

	Fair Value Measurement as of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Investments, at fair value				
Mutual funds	$ 281,651,577	$ -	$ -	$ 281,651,577
Self-directed brokerage accounts	9,773,529	-	-	9,773,529
	$ 291,425,106	$ -	$ -	$ 291,425,106

	Fair Value Measurement as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Investments, at fair value				
Mutual funds	$ 219,854,527	$ -	$ -	$ 219,854,527
Self-directed brokerage accounts	6,814,915	-	-	6,814,915
	$ 226,669,442	$ -	$ -	$ 226,669,442

Note 4 – Investment Contract

The Nationwide Fixed Account is a fully benefit-responsive investment contract issued by Nationwide. The Nationwide Fixed Account consists of various investments. The crediting interest rate is based on a formula agreed upon with the issuer. Under the terms of the existing contract, interest rates are all declared as annual effective yields. An effective yield takes into account the effect of interest compounding. Nationwide credits interest to the contract value on each business day. Annual effective yields are converted by Nationwide into a daily interest rate factor and will never be less than the guaranteed minimum interest rate.

Certain events limit the ability of the Plan to transact at contract value with Nationwide. Such events include the following: (1) premature termination of the contracts by the Plan, (2) plan termination, (3) bankruptcy, or (4) layoffs. The plan administrator does not believe that the occurrence of any such event, which would limit the Plan's ability to transact at contract value with participants, is probable.

Note 5 – Risks and Uncertainties

The Plan invests in various types of investment securities. Investments are exposed to various risks, such as custodial, interest rate, credit, concentration of credit, and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of fiduciary net position.

Note 5 – Risks and Uncertainties (continued)

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments that are in the possession of an outside party. The Plan's investments are held in actively traded securities through Nationwide, the Plan's custodian.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investments in fixed income securities are limited to several bond mutual funds, which are actively traded and valued daily at a published net asset value, and corporate bonds that are selected and monitored by individual participants through the Plan's self-directed brokerage option.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Plan. The Plan has an investment policy that manages credit risk by offering a selection of mutual fund options for investment within each investment classification in the investment policy. These investment options and the Plan's investment policy are monitored by the Committee and an independent investment consultant.

Concentration of credit risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Plan's investment with a single investment or issuer. Individual investments representing more than 5% of the Plan's fiduciary net position is summarized as follows:

	December 31,	
	2023	2022
Nationwide Fixed Account	$ 83,881,283	$ 94,429,079
Fidelity 500 Index Fund	47,982,400	37,556,810
T. Rowe Price Large Cap Growth Fund	23,956,227	16,979,862
Vanguard Target Retirement 2025 Fund	20,795,585	18,699,390
Allspring Special Mid Cap Value Fund	*	17,017,156
Others, each less than 5%	198,690,894	136,416,224
Total investments	$ 375,306,389	$ 321,098,521

* Investment does not represent more than 5% of the Plan's fiduciary net position at December 31, 2023.

Note 6 – Tax Status

The plan document was written in accordance with IRC Section 457(b) and applicable regulations thereunder and acknowledges that the employer of the plan may amend the provisions of the Plan at any time. The plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Note 7 – Termination

Although it has not expressed any intent to do so, the County has the right under the Plan to amend, suspend, or terminate the Plan, any deferrals thereunder, or any investment fund, in whole or in part. In the event of plan termination, all amounts deferred shall be payable to the participants or beneficiaries as provided in the Plan.

Report of Independent Auditors 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*

The Administrative Committee
Monterey County 457(b) Deferred Compensation Plan

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 Monterey County 457(b) Deferred Compensation Plan as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Monterey County 457(b) Deferred Compensation Plan's basic financial statements, and have issued our report thereon dated August ___, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Monterey County 457(b) Deferred Compensation Plan's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monterey County 457(b) Deferred Compensation Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of Monterey County 457(b) Deferred Compensation Plan's 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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monterey County 457(b) Deferred Compensation Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Salinas, California
August __, 2024