

CITY OF KING CITY

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of King City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, (the City) as of and for the year ended June 30, 2014, 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.

Auditor's 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 from 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

As discussed in Note 11, the City has not estimated and reported a liability for landfill post-closure care costs or included the related note disclosures as required by accounting principles generally accepted in the United States of America.

In our opinion, except as noted in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof

for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 through 37 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.

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

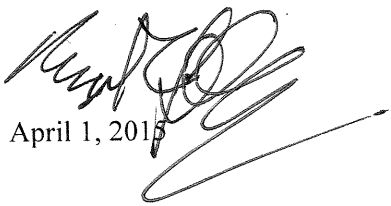
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of King City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2015, on our consideration of the City of King City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of King City's internal control over financial reporting and compliance.

April 1, 2015



CITY OF KING CITY

STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,816,792	\$ 6,662,097	\$ 8,478,889
Restricted cash and investments	-	340,099	340,099
Accounts receivable	224,705	181,507	406,212
Due from other governments	368,847	-	368,847
Interest receivable	2,602	45	2,647
Notes receivable	2,800,308	-	2,800,308
Internal balances	(3,725,352)	3,725,352	-
Deferred charges	-	92,501	92,501
Capital assets (net of allowance for depreciation)	<u>13,401,986</u>	<u>3,050,152</u>	<u>16,452,138</u>
Total assets	<u>14,889,888</u>	<u>14,051,753</u>	<u>28,941,641</u>
LIABILITIES			
Accounts payable and accrued expense	608,570	16,488	625,058
Accrued interest	-	81,029	81,029
Deposits	55,784	-	55,784
Compensated absences	515,810	-	515,810
Noncurrent liabilities			
Due within one year	136,626	95,000	231,626
Due in more than one year	<u>522,197</u>	<u>4,545,000</u>	<u>5,067,197</u>
Total liabilities	<u>1,838,987</u>	<u>4,737,517</u>	<u>6,576,504</u>
NET POSITION			
Net investment in capital assets	13,401,986	(1,589,848)	11,812,138
Restricted for debt service	-	340,099	340,099
Restricted for capital projects	1,671,152	-	1,671,152
Restricted for long-term notes receivable	2,800,308	-	2,800,308
Restricted for specific projects and programs	265,334	-	265,334
Unrestricted (deficit)	<u>(5,087,879)</u>	<u>10,563,985</u>	<u>5,476,106</u>
Total net position	<u>\$ 13,050,901</u>	<u>\$ 9,314,236</u>	<u>\$ 22,365,137</u>

CITY OF KING CITY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions/Programs	Net Revenue/(Expense) and Changes in Net Position						
	Program Revenue			Primary Government			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 525,352	\$ 4,696	\$ 26,784	\$ -	\$ (493,872)	\$ -	\$ (493,872)
Public safety	2,962,184	150,605	157,912	-	(2,653,667)	-	(2,653,667)
Public works	1,351,945	-	398,882	-	(953,063)	-	(953,063)
Culture and recreation	432,727	124,123	-	-	(308,604)	-	(308,604)
Community development	1,263,641	104,780	2,894,489	267,682	2,003,310	-	2,003,310
Debt service	1,564	-	-	-	(1,564)	-	(1,564)
Interest and fiscal charges	6,537,413	384,204	3,478,067	267,682	(2,407,460)	-	(2,407,460)
Total governmental activities							
Business-type activities							
Sewer	1,177,332	2,450,328	-	-	-	1,272,996	1,272,996
Total business-type activities	1,177,332	2,450,328	-	-	-	1,272,996	1,272,996
Total primary government	\$ 7,714,745	\$ 2,834,532	\$ 3,478,067	\$ 267,682	(2,407,460)	1,272,996	(1,134,464)
General Revenue							
Property taxes					785,154	-	785,154
Franchise taxes					315,384	-	315,384
Sales taxes					1,435,830	-	1,435,830
Transient occupancy taxes					303,898	-	303,898
Utility users tax					233,332	-	233,332
Business licenses					82,267	-	82,267
Motor vehicle in-lieu					729,595	-	729,595
Investment income					129,684	10,176	139,860
Other revenues					2,433	-	2,433
Transfers					350,000	(350,000)	-
Total general revenue and transfers					4,367,577	(339,824)	4,027,753
Change in Net Position					1,960,117	933,172	2,893,289
Net Position							
Beginning of year					11,090,784	8,614,816	19,705,600
Cumulative effect from change in accounting principle					-	(233,752)	(233,752)
End of year					\$ 13,050,901	\$ 9,314,236	\$ 22,365,137

CITY OF KING CITY

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	Gas Tax	HOME Grant	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ -	\$ 299,509	\$ -	\$ 905,618	\$ 611,665	\$ 1,816,792
Accounts receivable	11,472	-	-	163,781	49,452	224,705
Due from other governments	283,186	39,569	29,425	-	16,667	368,847
Interest receivable	2,602	-	-	-	-	2,602
Notes receivable	100,308	-	2,700,000	-	-	2,800,308
Total assets	\$ 397,568	\$ 339,078	\$ 2,729,425	\$ 1,069,399	\$ 677,784	\$ 5,213,254
LIABILITIES						
Accounts payable and accrued expense	\$ 470,138	\$ 22,340	\$ 8,455	\$ 75,658	\$ 31,979	\$ 608,570
Deposits	55,784	-	-	-	-	55,784
Due to other funds	3,669,924	-	20,970	-	34,458	3,725,352
Total liabilities	4,195,846	22,340	29,425	75,658	66,437	4,389,706
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	-	-	2,700,000	-	-	2,700,000
Total deferred inflows of resources	-	-	2,700,000	-	-	2,700,000
FUND BALANCE						
Nonspendable	100,308	-	-	-	-	100,308
Restricted	-	316,738	-	-	255,623	572,361
Circulation improvements	-	-	-	993,741	105,050	1,098,791
Capital improvement projects	-	-	-	-	219,491	219,491
Public safety	-	-	-	-	45,843	45,843
Landscape maintenance	-	-	-	-	(14,660)	(3,913,246)
Unassigned	(3,898,586)	-	-	-	611,347	(1,876,452)
Total fund balance	(3,798,278)	316,738	-	993,741	-	-
Total liabilities, deferred inflows of resources, and fund balance	\$ 397,568	\$ 339,078	\$ 2,729,425	\$ 1,069,399	\$ 677,784	\$ 5,213,254

CITY OF KING CITY

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014**

Total governmental fund balances \$ (1,876,452)

Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds 13,401,986

Certain revenues in Governmental Funds are deferred because they are
not collected within the prescribed time period after fiscal year end.
Those revenues are recognized on the accrual basis in Governmental
Activities 2,700,000

Governmental long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the funds (658,823)

Compensated absences are not due and payable in the current period
and, therefore, are not reported in the funds (515,810)

Net position of governmental activities \$ 13,050,901

CITY OF KING CITY

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2014

	General	Gas Tax	HOME Grant	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
Revenue						
Taxes	\$ 2,922,652	\$ -	\$ -	\$ -	\$ 233,332	\$ 3,155,984
Intergovernmental	814,291	398,882	2,795,410	-	107,662	4,116,245
Charges for services	254,042	-	-	-	2,121	256,163
Licenses, permits and impact fees	96,794	-	-	262,186	-	358,980
Fines and forfeitures	124,528	-	-	-	3,513	128,041
Interest and rent	25,358	-	-	-	104,326	129,684
Gain on sale of equipment	9,300	-	-	-	-	9,300
Other	2,433	-	-	-	-	2,433
Total revenue	4,249,398	398,882	2,795,410	262,186	450,954	8,156,830
Expenditures						
Current						
General government	583,352	-	-	-	-	583,352
Public safety	2,747,564	-	-	-	55,368	2,802,932
Public works	349,828	402,682	-	-	72,707	825,217
Culture and recreation	239,613	-	-	-	-	239,613
Community development	934,431	-	2,795,410	213,020	20,780	3,963,641
Capital outlay	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Principal	-	-	-	-	25,638	25,638
Interest and fiscal charges	-	-	-	-	1,564	1,564
Total expenditures	4,854,788	402,682	2,795,410	213,020	176,057	8,441,957
Revenue over/(under) expenditures	(605,390)	(3,800)	-	49,166	274,897	(285,127)
Other Financing Sources/(Uses)						
Transfers in/(out) - net	588,018	-	-	-	(238,018)	350,000
Change in Fund Balance	(17,372)	(3,800)	-	49,166	36,879	64,873
Fund Balance						
Beginning of year	(3,780,906)	320,538	-	944,575	574,468	(1,941,325)
End of year	(3,798,278)	316,738	-	993,741	611,347	(1,876,452)

CITY OF KING CITY

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

Net change in fund balance - total governmental funds \$ 64,873

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position 150,746

Governmental funds report issuance of loans as expenditures. However, in the Statement of Activities these loans are subject to capitalization on the Statement of Net Position 2,700,000

The net effect of adjustment involving disposal of capital assets (13,927)

Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds (24,820)

Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in Governmental Funds (916,755)

Change in net position of governmental activities \$ 1,960,117

CITY OF KING CITY

STATEMENT OF NET POSITION – PROPRIETARY FUND JUNE 30, 2014

	Business-Type Activities - Enterprise Fund
	Sewer
ASSETS	
Current assets	
Cash and investments	\$ 6,662,097
Restricted cash and investments	340,099
Accounts receivable	181,507
Due from other funds	3,725,352
Interest receivable	45
Total current assets	<u>10,909,100</u>
Non-current assets	
Deferred charges	92,501
Property, plant and equipment (net of allowance for depreciation)	<u>3,050,152</u>
Total noncurrent assets	<u>3,142,653</u>
Total assets	<u>14,051,753</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expense	16,488
Accrued interest	81,029
Current portion of long-term debt	95,000
Total current liabilities	<u>192,517</u>
Noncurrent Liabilities	
Long-term debt	<u>4,545,000</u>
Total liabilities	<u>4,737,517</u>
NET POSITION	
Net investment in capital assets	(1,589,848)
Restricted for debt service	340,099
Unrestricted	10,563,985
Total net position	<u>\$ 9,314,236</u>

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Fund
	Sewer
Operating Revenue	
Charges for services	\$ 2,397,778
Rents and concessions	52,550
Total operating revenue	<u>2,450,328</u>
Operating Expense	
Contractual services and utilities	361,570
Personnel	155,274
Supplies and materials	243,825
Depreciation	169,487
Total operating expense	<u>930,156</u>
Operating income/(loss)	<u>1,520,172</u>
Nonoperating Revenue/(Expense)	
Interest income	10,176
Interest expense	(243,611)
Amortization expense	(3,565)
Total nonoperating revenue/(expense)	<u>(237,000)</u>
Net income/(loss) before transfers	1,283,172
Operating Transfers In/(Out)	<u>(350,000)</u>
Change in Net Position	<u>933,172</u>
Net Position	
Beginning of year	8,614,816
Cumulative effect from change in accounting principle	(233,752)
End of year	<u>\$ 9,314,236</u>

CITY OF KING CITY

STATEMENT OF CASH FLOW - PROPRIETARY FUND YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Fund
	Sewer
Operating Activities	
Receipts from customers and users	\$ 2,439,153
Payments for contractual services and utilities	(403,539)
Payments to employees	(155,274)
Payments to suppliers	(243,825)
Net cash provided by (used in) operating activities	<u>1,636,515</u>
Non-capital Financial Activities	
Cash received from (paid to) other funds	(300,327)
Net cash provided by (used in) noncapital financing activities	<u>(300,327)</u>
Capital and Related Financing Activities	
Purchase of property, plant, and equipment	(146,207)
Principal paid on long-term debt	(90,000)
Interest paid on long-term debt	(244,661)
Net cash provided by (used in) capital and related financing activities	<u>(480,868)</u>
Investing Activities	
Interest received	10,176
Net cash provided by (used in) investing activities	<u>10,176</u>
Net Increase (Decrease) in Cash	865,496
Cash	
Beginning of year	6,136,700
End of year	<u>\$ 7,002,196</u>
Cash Flows from Operating Activities	
Operating income (loss)	\$ 1,520,172
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	169,487
(Increase) Decrease in Accounts Receivable	(11,175)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>(41,969)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,636,515</u>
Noncash Investing, Capital, and Financing Activities	
Amortization of bond discount	<u>\$ 3,565</u>

See accompanying notes.

CITY OF KING CITY

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2014

Assets

Cash and investments	
Cash and investments	\$ 1,736,678
Cash and investments with fiscal agent	1,051,113
Interest Receivable	31
Land held for resale	<u>1,500,250</u>
Total assets	<u>4,288,072</u>

Liabilities

Accounts payable and accrued liabilities	321,181
Interest payable	220,735
Long-term debt	
Due within one year	240,000
Due in more than one year	<u>9,358,432</u>
Total liabilities	<u>10,140,348</u>

Net Position

Held in trust for other governments	<u>\$ (5,852,276)</u>
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CITY OF KING CITY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2014

Additions

Property taxes	\$ 1,139,416
Investment earnings and other	22,368
Total additions	<u>1,161,784</u>

Deductions

Administrative costs	134,470
Program expenses of former redevelopment agency	401,235
Interest and fiscal agency expenses of former redevelopment agency	722,909
Total deductions	<u>1,258,614</u>

Change In Net Position

(96,830)

Net Position

Beginning of year	(6,270,729)
Prior period adjustment	515,283
End of year	<u>\$ (5,852,276)</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of King City (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The City of King City, State of California (the "City"), was incorporated as a general law city in 1911. The City is governed by a City Council of five members. The City's major operations include public safety; highways and streets; sewer services; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information of all of the nonfiduciary activities of the primary government and its component units. For the most part, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City and between the City and its discretely presented component unit. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Net position are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

Gas Tax Fund – The funds are used to account for receipts and expenditures of monies apportioned to the City under the Streets and Highways Code Section 2105, 2106, 2107 and 2107.5 of the State of California.

HOME Grant Fund – The fund is used to account for receipts and expenditures for the Home Investment Partnerships Program for the City to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people.

Development Impact Fees Fund – The fund is used to account for mitigation fees received from new construction which are to be used according to the City's approved Master Facilities Plan.

The City reports the following major proprietary fund:

Sewer Fund – The fund accounts for the maintenance, operation and capital improvements of the municipal sewage system. Financing is provided by user fees from residences, businesses and industries..

The City reports the following additional fund types:

Private-Purpose Trust Fund - The Private-Purpose Trust Fund accounts for assets held by the City as trustee for the Successor Agency.

Basis of Accounting

The Government-Wide and Proprietary Fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as 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. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

Financial Statement Amounts

Cash and Investments - Cash and investments represent the City's cash bank accounts including but not limited to certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds, except for assets held by fiscal agents. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund. Investments are stated at fair value.

Accounts Receivable - Billed but unpaid services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through June 30, 2014, which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

Monterey County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is March 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

Restricted Assets – Certain proceeds of the King City Public Financing Authority’s Certificates of Participation, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position because they are maintained in separate bank accounts and their use is limited by debt covenants.

Capital Assets - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City’s capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Infrastructure	20 - 50
Structures and Improvements	10 - 50
Equipment	5 - 30

Compensated Absences – Vacation time may be accumulated up to two years entitlement plus the current years' leave allowance. Cash compensation for accrued vacations is generally not payable until the employee terminates employment with the City. Sick leave may be accumulated to a maximum of 960 hours. Cash compensation for unused sick leave is payable to an employee only upon termination of employment with the City. At that time, the employee is compensated at the rate of 50% of their daily rate.

All accumulated vacation leave and applicable sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured; for example, as a result of employee resignations and retirements. Leave benefits are generally liquidated by the general fund.

Long-Term Obligations - In the Government-Wide Financial Statements, and Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Position. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Position.

Pension Plan - All full-time City employees are members of the State of California Public Employees' Retirement System. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary. See note 9 for further discussion.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Unearned Revenue – Unearned revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records unearned revenue related to uncollected outstanding performing loans and intergovernmental revenues received but not earned (qualifying expenditures not yet incurred).

Net Position/Fund Equity - The government-wide and business-type activities fund financial statements utilize a net position presentation. Net position are categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the City, not restricted for any project or other purpose.

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New GASB Pronouncement – For the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Upon implementation, there was no effect on the City's accounting or financial reporting.

New GASB Pronouncements Not Yet Adopted - In June 30, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for the fiscal year ended June 30, 2015.

In January 2014, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for the fiscal year ended June 30, 2015.

In April 2014, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for the fiscal year ended June 30, 2015.

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit of time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the King City Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during June of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 2 – Stewardship, Compliance and Accountability (Continued)

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 8,478,889
Restricted Cash and Investments	340,099
Fiduciary Funds:	
Cash and Investments	1,736,678
Cash and Investments with fiscal agent	<u>1,051,113</u>
Total Cash and Investments	<u>\$ 11,606,779</u>

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 972
Deposits with Financial Institutions	3,429,218
Local Agency Investment Fund	4,922,269
Certificates of Deposit	1,001,179
Money Market Mutual Funds	861,929
Held by Fiscal Agent:	
Money Market Mutual Funds	1,051,113
Government Investment Contracts	<u>340,099</u>
Total Cash and Investments	<u>\$ 11,606,779</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Percentage of Portfolio	Maximum Percentage of Portfolio
Local Agency Bonds	1 year	None	None
U.S. Treasury Obligations	1 year	A	None
U.S. Agency Securities	1 year	None	None
Banker's Acceptances	180 days	None	40%
Commercial Paper	270 days	None	25%
Negotiable Certificates of Deposit	1 year	None	30%
Repurchase Agreements	90 days	None	None
Reverse Repurchase Agreements	92 days	None	20% of base value
Medium-Term Notes	5 years	A	30%
Mutual Funds	N/A	A	20%
Money Market Mutual Funds	N/A	A	20%
Mortgage Pass-Through Securities	5 years	AA	20%

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	AAA	None
Banker's Acceptances	1 year	None	None
Commercial Paper	None	A-1	None
Money Market Mutual Funds	None	A	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	A-1	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

CITY OF KING CITY

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014**

Note 3 – Cash and Investments (Continued)

Disclosures Relating to 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. As of June 30, 2014 the City had the following investments.

Investment Type	12 Months or less	13 to 24 Months	25 to 84 Months	Total
LAIF	\$ 4,922,269	\$ -	\$ -	\$ 4,922,269
Certificates of Deposit	1,001,179	-	-	1,001,179
Money Market Mutual Funds	1,913,042	-	-	1,913,042
Government Investment Contract	-	-	340,099	340,099
Total Investments	\$ 7,836,490	\$ -	\$ 340,099	8,176,589
Cash in bank and on hand				3,430,190
Total Cash and Investments				\$ 11,606,779

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

	Rating as of Year-End			Total
	AAA	A	Ba	
Investments				
Certificates of Deposit	\$ -	\$ -	\$ 1,001,179	\$ 1,001,179
Money Market Mutual Funds	1,913,042	-	-	1,913,042
Total Investments	\$ 1,913,042	\$ -	\$ 1,001,179	2,914,221
Not rated:				
LAIF				4,922,269
Government Investment Contract				340,099
Cash in bank and on hand				3,430,190
Total Cash and Investments				\$ 11,606,779

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

GASB Statement No. 40 requires that the following disclosures be made with respect to custodial credit risks relating to deposits and investments: The City did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts. As of June 30, 2014, the City investments in the following investment types were held by the broker-dealer that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market Mutual Funds	\$ 1,051,113
Government Investment Contracts	340,099

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF KING CITY

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014**

Note 4 – Interfund Receivables, Payables and Transfers

Interfund Receivables and Payables

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2014 are as follows:

	<u>Due From</u>	<u>Due To</u>
Sewer Fund	\$ 3,725,352	\$ -
General Fund	-	3,669,924
HOME Grant Fund	-	20,970
Airport Operations Fund	-	19,798
Capital Projects Fund	-	14,660
	<u>\$ 3,725,352</u>	<u>\$ 3,725,352</u>

The interfund payable balance due to the Sewer Fund is a result of deficits in certain funds and temporary cash flow assistance in others. The balances due will be repaid as funds are available. However, it is not expected that any of the above amounts will be repaid within one year.

Transfers

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements.

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 588,018	\$ -
Enterprise Funds:		
Sewer Fund	-	(350,000)
Nonmajor Governmental Funds:		
Airport Operations Fund	-	(15,000)
Traffic Safety Fund	-	(2,964)
UUT-Public Safety Fund	-	(220,054)
	<u>\$ 588,018</u>	<u>\$ (588,018)</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 5 – Capital Assets

Capital asset activities for the year ended June 30, 2014 were as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 213,539	\$ -	\$ -	\$ 213,539
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>213,539</u>	<u>-</u>	<u>-</u>	<u>213,539</u>
Capital assets, being depreciated				
Buildings and improvements	8,581,044	-	-	8,581,044
Infrastructure	13,561,188	-	-	13,561,188
Machinery and equipment	2,902,123	-	46,421	2,855,702
Total capital assets, being depreciated	<u>25,044,355</u>	<u>-</u>	<u>46,421</u>	<u>24,997,934</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,336,382)	(227,245)	-	(5,563,627)
Infrastructure	(3,159,729)	(599,998)	-	(3,759,727)
Machinery and equipment	(2,429,115)	(89,512)	(32,494)	(2,486,133)
Total accumulated depreciation	<u>(10,925,226)</u>	<u>(916,755)</u>	<u>(32,494)</u>	<u>(11,809,487)</u>
Total capital assets, being depreciated, net	<u>14,119,129</u>	<u>(916,755)</u>	<u>13,927</u>	<u>13,188,447</u>
Governmental activities capital assets, net	<u>\$ 14,332,668</u>	<u>\$ (916,755)</u>	<u>\$ 13,927</u>	<u>\$ 13,401,986</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 764,093	\$ -	\$ -	\$ 764,093
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>764,093</u>	<u>-</u>	<u>-</u>	<u>764,093</u>
Capital assets, being depreciated				
Building and improvements	6,166,705	146,207	-	6,312,912
Plant and equipment	1,183,279	-	-	1,183,279
Total capital assets, being depreciated	<u>7,349,984</u>	<u>146,207</u>	<u>-</u>	<u>7,496,191</u>
Less: accumulated depreciation	<u>(5,040,645)</u>	<u>(169,487)</u>	<u>-</u>	<u>(5,210,132)</u>
Total capital assets, being depreciated, net	<u>2,309,339</u>	<u>(23,280)</u>	<u>-</u>	<u>2,286,059</u>
Business-type activities capital assets, net	<u>\$ 3,073,432</u>	<u>\$ (23,280)</u>	<u>\$ -</u>	<u>\$ 3,050,152</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to the following functions in the Statement of Activities:

Governmental Functions:

General Government	\$ 37,661
Public Safety	159,252
Public Works	526,728
Culture and Recreation	193,114
	<u>\$ 916,755</u>

Business-Type Functions:

Sewer	<u>\$ 169,487</u>
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Note 6 – Notes Receivables

Notes receivable and deferred loans consisted of the following at June 30, 2014:

King City Pacific Associates, L.P. - The HOME Investment Partnership Grant program approved \$3,00,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with King City Pacific Associates, L.P. to loan such funds for the construction of the San Antonio Apartments. Funds were provided in the form of a deferred payment loan. If not paid sooner, the unpaid principal balance of this note, plus any unpaid interest thereon shall be due and payable in full fifty-five years from the date of the note. The note bears 3% interest and the face amount of the note at June 30, 2014 was \$2,700,000.

City Manager - The City made a housing loan to the City Manager, in the amount of \$120,000 for the purchase of a home within the City limits. The loan was secured by a deed of trust and had a term of 30 years with an interest rate of 5%. The note balance at June 30, 2014 was \$100,308.

Note 7 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The City's debt transactions are summarized below and discussed in detail thereafter:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
<u>Government-Type Activity Long Term Debt</u>					
Pension related debt	\$ 783,931	\$ -	\$ (125,108)	\$ 658,823	\$ 136,626
Vehicle capital lease	25,638	-	(25,638)	-	-
Total Government-Type Activity Debt	<u>\$ 809,569</u>	<u>\$ -</u>	<u>\$ (150,746)</u>	<u>\$ 658,823</u>	<u>\$ 136,626</u>
<u>Business-Type Activity Long Term Debt</u>					
2009 Refunding Certificates of Participation	\$ 4,730,000	\$ -	\$ (90,000)	\$ 4,640,000	\$ 95,000
Total Business-Type Activity Debt	<u>\$ 4,730,000</u>	<u>\$ -</u>	<u>\$ (90,000)</u>	<u>\$ 4,640,000</u>	<u>\$ 95,000</u>
<u>Compensated Absences</u>					
Government Activities	\$ 490,990	\$ 24,820	\$ -	\$ 515,810	

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2014 was comprised of the following individual issues:

Pension-Related Debt – As of June 30, 2003, CalPERS implemented risk pooling for the City’s multiple-employer public employee defined benefit pension plan. At that point, in accordance with generally accepted accounting principles, the City’s Miscellaneous and Safety Plans converted from an “agent” multiple-employer plan to a “cost-sharing” multiple-employer plan. Although a portion of the City’s annual required contributions are actuarially determined and shared by all employers of the risk pool, the City is also required to make annual payments on a “Side Fund” which was created when the City entered the risk pool. The responsibility for funding the Side Fund is specific to the City and is not shared by all employers in the plan. Therefore, the Side Fund falls under the definition of pension-related debt as described in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The annual payments on the Side Fund represent principal and interest payments on the pension-related debt. Principal and interest are included in the retirement expenditures in the various functions.

Vehicle Capital Lease – On July 13, 2011, the City entered into a Lease with Option to Purchase agreement for four police vehicles. The lease bears an interest rate of 6.1% and is paid off as June 30, 2014.

2009 Refunding Certificates of Participation – In May of 2009, the King City Public Financing Authority (the “Authority”) (a component unit of the City of King City) issued the 2009 Refunding Certificates of Participation in the principal amount of \$4,990,000. The Certificates were issued to refund the \$4,000,000 2007 Certificates of Participation, Series A and to satisfy reserve requirements. As a result, the 2007 Certificates of Participation, Series A are considered to be defeased and the liability for those certificates has been removed from the City’s books. The Authority refunded the 2007 Certificates of Participation to extend the maturity date of the certificates from September 2010 to September 2039. The refunding increases the total debt services payments over the next 29 years by \$5,947,974 and results in an economic loss of \$328,763.

The Certificates bear an interest rate of 3% to 5.6% payable semi-annually on March 1 and September 1, beginning September 1, 2009 and matures on September 1, 2039. The Certificates are a special obligation of the Authority, payable solely from certain pledged revenues under the Trust Agreement, and do not constitute a pledge of the full faith and credit or taxing power of the Authority or City. “Revenues” are derived of installment payments to be made by the City pursuant to an Installment Sale Agreement dated April 1, 2009 between the City and the Authority. Installment payments are payable from net revenues, defined generally as gross revenues received from the sewer system, less maintenance and operation costs.

Per the bond covenants, the Authority is required to maintain certain amounts on deposit in a reserve fund. Also, the Authority is required to maintain certain net income ratios. For the 2013-14 fiscal year, the Authority was in compliance with these bond covenants.

CITY OF KING CITY

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014**

Note 7 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2014 was:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 136,626	\$ 44,405	\$ 95,000	\$ 241,614
2016	81,890	36,173	95,000	238,526
2017	92,054	29,649	100,000	235,061
2018	103,380	22,317	105,000	231,111
2019	115,777	14,104	110,000	226,756
2020-2024	129,096	4,932	625,000	1,053,176
2025-2029	-	-	795,000	869,725
2030-2034	-	-	1,035,000	621,555
2035-2039	-	-	1,360,000	288,400
2040	-	-	320,000	8,960
	<u>\$ 658,823</u>	<u>\$ 151,580</u>	<u>\$ 4,640,000</u>	<u>\$ 4,014,884</u>

Conduit Debt Obligations - To provide financing for health facilities of Southern Monterey County Memorial Hospital (the “Corporation”), the City has issued \$5,265,000 aggregate principal amount of Health Facilities Revenue Certificates of Participation, 1998 Series A, and \$7,735,000 aggregate principal amount of Health Facilities Revenue Certificates of Participation, 1999 Series B (the “COPS”). These COPS are payable solely from purchase payments received by the City from the Corporation pursuant to an installment purchase agreement. The COPS do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements. At June 30, 2014 the outstanding balance on both COPS Series was \$9,509,162.

Note 8 – Deficit Fund Balances

Fund Balance and Retained Earnings Deficits - The following is a summary of deficit fund balances and retained earnings as of June 30, 2014:

Governmental Funds	
General	\$(3,798,278)
Capital Projects	<u>(14,660)</u>
	<u>\$(3,812,938)</u>

These deficits are are expected to be relieved from future revenues or transfers from other funds.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

Note 9 – Pension Plan

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy – Active plan members in Miscellaneous Plan and Safety Plan are required to contribute between 7% and 9% of their covered salary. The City is required to contribute at an actuarially determined rate; the combined current rate is 19.071 percent for non-safety employees and 25.515 percent for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost - For the year ended June 30, 2014, the City's annual pension cost of \$436,290 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

THREE YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 405,108	100%	-
June 30, 2013	\$ 451,811	100%	-
June 30, 2014	\$ 436,290	100%	-

The City established a defined contribution profit sharing retirement plan in the form of a 401 Governmental Profit Sharing Plan and Trust for the benefit of its employees as allowed by the Internal Revenue Code of 1986. The plan provides employees with funds for retirement and for their beneficiaries in the event of death. The plan is administered by ICMA Retirement Corporation (ICMA-RC) with its assets invested in Vantage Trust Company. Under the plan, City employees can voluntarily contribute a maximum of up to 5% of their wages with a City maximum match of 2%. The contribution requirement for employees and the employer are established and may be amended by agreements between employee unions and the City.

For the year ended June 30, 2014, plan members and the City contributed \$39,316 and \$7,561, respectively.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 10 – Risk Management

The City participates in the Monterey Bay Area Self-Insurance Authority (MBASIA), a joint powers agency comprising the City and nine other local jurisdictions, created pursuant to California law for liability and workers compensation insurance services. The MBASIA's Board of Directors is elected from representatives of the member governments and controls operations of the fund, including selection of management and approval of operating budgets. It is independent of the individual member influence, except for their representation on the board, and is therefore not a component unit of the City for reporting purposes.

The City is exposed to various risks including worker injuries, tort liability, theft, damage or destruction of assets, errors and omissions, and natural disasters. With respect to risks other than workers' compensation, the City and other pool participants pay an annual premium estimated by the pool administrator to be sufficient to cover all liability claims for which the pool is obligated. If a covered entity's losses exceed its premiums, there is no individual supplemental assessment, and if a covered entity's losses are lower than its assessment, it does not receive a refund. However, annual budget appropriations are experienced-based. The pool views its activities in the aggregate and makes overall adjustments to the premiums charged and is, therefore, intended to be self-sustaining through member contributions (premiums). Risk of loss is retained by the City for general liability claims up to \$10,000 per occurrence. The fund carries excess loss coverage for general liability claims between \$990,000 and \$20,000,000 per insured event, and is uninsured for losses in excess of \$20,000,000 per event. Unpaid claims at fiscal year end, as reported by the fund, were not material. There was no reduction in the City's insurance coverage as compared to the previous fiscal year, nor have there been any losses exceeding coverage during any of the three previous years.

Premium payment amounts are determined by the fund's Board and are charged to the City's general fund as expenditures when paid.

In the proper course of operation, the MBASIA issued debt in the aggregate principal amount of \$5,150,000 on October 1, 2004. The MBASIA is required to collect and disburse the loan premiums in accordance with the loan agreement, Article VI, Section 6.03. The Member Agencies are required by the Amended and Restated Joint Powers Agreement Relating to the MBASIA, Article 20 to pay the MBASIA their individual debt service amount and associated expenses, as determined by the MBASIA. Furthermore, the member Agencies contribution will be payable from any source of available funds of the Member, including amounts on deposit in the general fund of the Member.

Note 11 – Deferred Outflows/Inflows of Resources

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2014.

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows or resources, certain items that were previously reported as assets and liabilities.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 11 – Deferred Outflows/Inflows of Resources (Continued)

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items to report in this category.

In addition to liabilities, the statement of financial position will sometimes 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 or resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds are unavailable revenues of \$2,700,000 related to long-term notes and loans receivable.

Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through April 1, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

Note 13 - Contingencies

Federal and State Government Programs - The City participates in several federal and state grant programs. These programs have been audited, as needed, in accordance with the provisions of the federal Single Audit Act of 1984 and applicable state requirements. No cost disallowances were proposed as a result of these audits. However, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

Workers' Compensation JPA - The City participates in the workers' compensation program for the MBASIA. This program had negative net position as of June 30, 2014. It should be noted that the MBASIA accrued approximately \$10 million in long-term liabilities for claim and claim adjustment reserves in previous years which contributed to the negative net position. The effect this may have on the City is currently unknown. The City contributes approximately 3% of the MBASIA's revenue for the workers' compensation program.

Landfill Postclosure Costs – Since the closure of the City's landfill in previous fiscal years, the City has been incurring postclosure care costs. In accordance with generally accepted accounting principles, the City was required to estimate and recognize and accrued liability for both closure and postclosure costs related to the landfill. Because the City accounts for the postclosure costs in a governmental fund, this liability of total estimated costs should be reported in the government-wide statement of net position, and be adjusted each year as necessary. However, the City has not estimated and recorded this liability as required. In addition, certain note disclosures relating to the landfill postclosure costs have not been included in these financial statements.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 14 – Cumulative Effect from Change in Accounting Principle

The City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Previously, under GASB Statement No. 7, the costs of bond issuance were capitalized and amortized over the repayment period in the financial statements. Under GASB Statement No. 65, these costs are to be expensed in the period incurred. At June 30, 2013, the remaining unamortized portion of the bond issuance costs was \$233,752. Net position at June 30, 2013, was adjusted in the accompanying financial statements for the cumulative effect of this new accounting principle which resulted in a decrease to beginning net position of \$233,752.

Note 15 – Prior Period Adjustments

In the Private Purpose Trust Fund – Successor Agency statement, the Agency accrued interest related to notes payable and judgments owed by the Successor Agency. During the current fiscal year the Agency negotiated and settled on amounts lower than what the Agency had accrued. The beginning net position was adjusted by \$515,283 to adjust accrued interest on these notes and judgements at June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive/ (Negative)</u>
Revenue				
Taxes	\$ 2,788,500	\$ 2,788,500	\$ 2,922,652	\$ 134,152
Intergovernmental	902,500	902,500	814,291	(88,209)
Charges for services	204,400	204,400	254,042	49,642
Licenses and permits	47,400	47,400	96,794	49,394
Fines and forfeitures	98,500	98,500	124,528	26,028
Interest and rents	22,000	22,000	25,358	3,358
Gain on sale of equipment	-	-	9,300	9,300
Other	61,000	61,000	2,433	(58,567)
Total revenue	<u>4,124,300</u>	<u>4,124,300</u>	<u>4,249,398</u>	<u>125,098</u>
Expenditures				
Current				
General government	696,510	696,510	583,352	113,158
Public safety	2,828,295	2,828,295	2,747,564	80,731
Public works	324,550	324,550	349,828	(25,278)
Culture and recreation	146,600	146,600	239,613	(93,013)
Community development	705,213	705,213	934,431	(229,218)
Total expenditures	<u>4,701,168</u>	<u>4,701,168</u>	<u>4,854,788</u>	<u>(153,620)</u>
Revenue over (under) expenditures	(576,868)	(576,868)	(605,390)	(28,522)
Other Financing Sources				
Transfers in (out), net	<u>593,500</u>	<u>593,500</u>	<u>588,018</u>	<u>(5,482)</u>
Net Change in Fund Balance	<u>\$ 16,632</u>	<u>\$ 16,632</u>	<u>(17,372)</u>	<u>\$ (34,004)</u>
Fund Balance				
Beginning of year			<u>(3,780,906)</u>	
End of year			<u>\$ (3,798,278)</u>	

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE

GAS TAX FUND

YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 352,000	\$ 352,000	\$ 398,882	\$ 46,882
Total revenue	<u>352,000</u>	<u>352,000</u>	<u>398,882</u>	<u>46,882</u>
 Expenditures				
Current				
Public works	451,968	451,968	402,682	49,286
Total expenditures	<u>451,968</u>	<u>451,968</u>	<u>402,682</u>	<u>49,286</u>
Revenue over (under) expenditures	(99,968)	(99,968)	(3,800)	96,168
 Other Financing Sources				
Transfers in (out), net	-	-	-	-
 Net Change in Fund Balance	<u>\$ (99,968)</u>	<u>\$ (99,968)</u>	(3,800)	<u>\$ 96,168</u>
 Fund Balance				
Beginning of year			<u>320,538</u>	
End of year			<u>\$ 316,738</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
HOME GRANT FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ -	\$ -	\$ 2,795,410	\$ 2,795,410
Total revenue	<u>-</u>	<u>-</u>	<u>2,795,410</u>	<u>2,795,410</u>
Expenditures				
Current				
Community development	-	-	2,795,410	(2,795,410)
Total expenditures	<u>-</u>	<u>-</u>	<u>2,795,410</u>	<u>(2,795,410)</u>
Revenue over (under) expenditures	-	-	-	-
Other Financing Sources				
Transfers in (out), net	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ -</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Licenses, permits and impact fees	\$ -	\$ -	\$ 262,186	\$ 262,186
Total revenue	-	-	262,186	262,186
Expenditures				
Current				
Community development	1,000	1,000	213,020	(212,020)
Total expenditures	1,000	1,000	213,020	(212,020)
Revenue over/(under) expenditures	<u>\$ (1,000)</u>	<u>\$ (1,000)</u>	49,166	<u>\$ 50,166</u>
Fund Balance				
Beginning of year			944,575	
End of year			<u>\$ 993,741</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KING CITY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds					
	SLESF/COPS Grant	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations	
ASSETS						
Cash and investments	\$ 177,254	\$ 211,569	\$ 16,523	\$ 45,843	\$ -	
Accounts receivable		-	-	-	24,668	
Due from other governments	16,667	-	-	-	-	
Total assets	<u>\$ 193,921</u>	<u>\$ 211,569</u>	<u>\$ 16,523</u>	<u>\$ 45,843</u>	<u>\$ 24,668</u>	
LIABILITIES						
Accounts payable and accrued expense	\$ 27,497	\$ -	\$ -	\$ -	\$ 4,455	
Due to other funds	-	-	-	-	19,798	
Total liabilities	<u>27,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,253</u>	
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	-	-	-	-	-	
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
FUND BALANCE						
Restricted						
Circulation improvements	-	211,569	-	-	415	
Capital improvement projects	-	-	-	-	-	
Public safety	166,424	-	16,523	-	-	
Landscape maintenance	-	-	-	45,843	-	
Unassigned	-	-	-	-	-	
Total fund balance	<u>166,424</u>	<u>211,569</u>	<u>16,523</u>	<u>45,843</u>	<u>415</u>	
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 193,921</u>	<u>\$ 211,569</u>	<u>\$ 16,523</u>	<u>\$ 45,843</u>	<u>\$ 24,668</u>	

CITY OF KING CITY

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2014**

	Special Revenue Funds			Capital Projects Fund	Total Non-major Governmental Funds
	Traffic Safety	CDBG Grant	UUT-Public Safety	Capital Projects	
ASSETS					
Cash and investments	\$ 43,560	\$ 105,077	\$ 11,839		\$ 611,665
Accounts receivable	79	-	24,705	-	49,452
Due from other governments	-	-	-	-	16,667
Total assets	\$ 43,639	\$ 105,077	\$ 36,544	\$ -	\$ 677,784
LIABILITIES					
Accounts payable and accrued expense	\$ -	\$ 27	\$ -	\$ -	\$ 31,979
Due to other funds	-	-	-	14,660	34,458
Total liabilities	-	27	-	14,660	66,437
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
FUND BALANCE					
Restricted					
Circulation improvements	43,639	-	-	-	255,623
Capital improvement projects	-	105,050	-	-	105,050
Public safety	-	-	36,544	-	219,491
Landscape maintenance	-	-	-	-	45,843
Unassigned	-	-	-	(14,660)	(14,660)
Total fund balance	43,639	105,050	36,544	(14,660)	611,347
Total liabilities, deferred inflows of resources, and fund balance	\$ 43,639	\$ 105,077	\$ 36,544	\$ -	\$ 677,784

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds					
	SLESF/COPS Grant	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations	
Revenue						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	100,000	-	-	-	-	-
Charges for services	-	-	-	-	2,121	-
Fines and forfeitures	-	-	470	-	-	-
Interest and rent	-	-	-	-	104,326	-
Total revenue	<u>100,000</u>	<u>-</u>	<u>470</u>	<u>-</u>	<u>106,447</u>	<u>-</u>
Expenditures						
Public safety	55,368	-	-	-	-	-
Public works	-	-	-	112	72,595	-
Community development	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Principal	25,638	-	-	-	-	-
Interest	1,564	-	-	-	-	-
Total expenditures	<u>82,570</u>	<u>-</u>	<u>-</u>	<u>112</u>	<u>72,595</u>	<u>-</u>
Revenue over (under) expenditures	17,430	-	470	(112)	33,852	
Other financing sources/(uses)						
Transfers in/(out), net	-	-	-	-	(15,000)	
Total other financing sources (uses)	-	-	-	-	(15,000)	
Change in Fund Balance	17,430	-	470	(112)	18,852	
Fund Balance						
Beginning of year	148,994	211,569	16,053	45,955	(18,437)	
End of year	<u>\$ 166,424</u>	<u>\$ 211,569</u>	<u>\$ 16,523</u>	<u>\$ 45,843</u>	<u>\$ 415</u>	

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds			Capital Projects Fund		Total Non-major Governmental Funds
	Traffic Safety	CDBG Grant	UUT-Public Safety	Capital Projects		
Revenue						
Taxes	\$ -	\$ -	233,332	\$ -	\$ -	233,332
Intergovernmental	-	2,166	-	5,496	-	107,662
Charges for services	-	-	-	-	-	2,121
Fines and forfeitures	3,043	-	-	-	-	3,513
Interest and rent	-	-	-	-	-	104,326
Total revenue	3,043	2,166	233,332	5,496	-	450,954
Expenditures						
Public safety	-	-	-	-	-	55,368
Public works	-	-	-	-	-	72,707
Community development	-	624	-	20,156	-	20,780
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	25,638
Principal	-	-	-	-	-	1,564
Interest	-	-	-	-	-	176,057
Total expenditures	-	624	-	20,156	-	274,897
Revenue over (under) expenditures	3,043	1,542	233,332	(14,660)	-	274,897
Other financing sources/(uses)						
Transfers in/(out), net	(2,964)	-	(220,054)	-	-	(238,018)
Total other financing sources (uses)	(2,964)	-	(220,054)	-	-	(238,018)
Change in Fund Balance	79	1,542	13,278	(14,660)	-	36,879
Fund Balance						
Beginning of year	43,560	103,508	23,266	-	-	574,468
End of year	\$ 43,639	\$ 105,050	\$ 36,544	\$ (14,660)	\$ -	\$ 611,347

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

To the Honorable Mayor and City Council
City of King City, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated April 1, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the the deficiency described in item 2012-02 in the accompany schedule of findings to be material weaknesses.

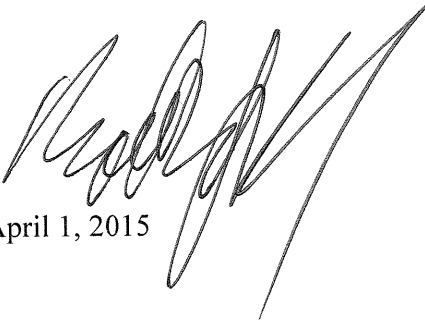
Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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.

April 1, 2015

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and City Council
City of King City, California

Report on Compliance for Each Major Federal Program

We have audited City of King City, California's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City's compliance.

Opinion on Each Major Federal Program

In our opinion, City of King City, California, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

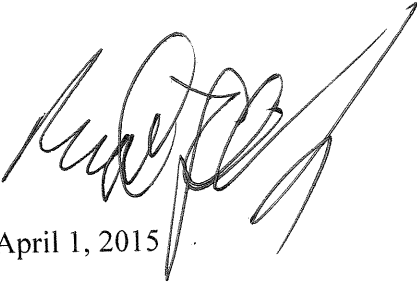
Report on Internal Control Over Compliance

Management of City of King City, California, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



April 1, 2015

CITY OF KING CITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Community Development Home Investment Partnerships Program Grant	14.239	12-HOME-7856	\$ <u>2,795,410</u>
<i>Total Federal Expenditures</i>			\$ <u>2,795,410</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF KING CITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

A. Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Qualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported
- Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
14.239	Home Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

CITY OF KING CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) YEAR ENDED JUNE 30, 2014

B. Findings – Financial Statements Audit

2012-02 Landfill Postclosure Costs (Material Weakness)

Criteria:

Failure to estimate the liability related to the continuing postclosure care costs of the closed landfill understates the City's liabilities.

Condition:

The City has not estimated the liability related to the continuing postclosure care costs of the closed landfill.

Cause:

Failure on the part of the Finance Department to estimate the liability.

Effect:

The financial statements do not reflect the liability for the landfill.

Recommendation:

We recommend the City record a liability for these postclosure costs. It is often difficult to establish an estimated liability for these future costs. However, it is generally possible to establish a range for these costs and record the liability based on the best information available. Establishing an annual monitoring process will support the reasonableness of the liability.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.

CITY OF KING CITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2014

Summary Schedule of Prior Audit Findings

2012-01 Bank Reconciliations – Implemented

2012-02 Landfill Postclosure Costs – Not Implemented. See Finding 2012-02.