

CITY OF KING CITY

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

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

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, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

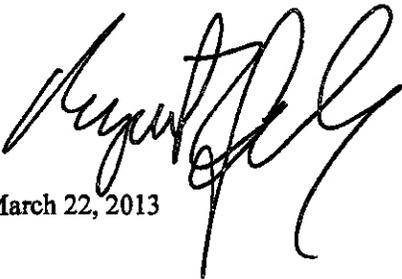
As discussed in Note 11, the City has not estimated and reported a liability for landfill postclosure care costs or included the related note disclosures as required by accounting principles generally accepted in the United States of America.

In our opinion, except as noted in the preceding paragraph, the basic 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 as of June 30, 2012, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements. The Budgetary Comparison Information on pages 37 through 39 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 supplemental information listed in the Table of Contents is presented for purposes of additional analysis and are not a required part of the 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. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "August 2013", written over the date text.

March 22, 2013

CITY OF KING CITY

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 540,747	\$ 4,769,307	\$ 5,310,054
Restricted cash and investments	-	340,030	340,030
Accounts receivable	109,104	144,625	253,729
Due from other governments	474,075	-	474,075
Interest receivable	2,271	482	2,753
Notes receivable	108,600	-	108,600
Internal balances	(3,615,924)	3,615,924	-
Deferred charges	-	342,058	342,058
Capital assets (net of allowance for depreciation)	15,274,052	3,253,210	18,527,262
Total assets	<u>12,892,925</u>	<u>12,465,636</u>	<u>25,358,561</u>
LIABILITIES			
Accounts payable and accrued expense	306,847	65,725	372,572
Accrued interest	-	83,129	83,129
Deposits	40,481	-	40,481
Compensated absences	469,310	-	469,310
Noncurrent liabilities			
Due within one year	131,913	90,000	221,913
Due in more than one year	809,569	4,730,000	5,539,569
Total liabilities	<u>1,758,120</u>	<u>4,968,854</u>	<u>6,726,974</u>
NET ASSETS			
Invested in capital assets, net of related debt	15,224,250	(1,566,790)	13,657,460
Restricted for debt service	-	340,030	340,030
Restricted for capital projects	858,584	-	858,584
Restricted for specific projects and programs	204,818	-	204,818
Unrestricted (deficit)	(5,152,847)	8,723,542	3,570,695
Total net assets	<u>\$ 11,134,805</u>	<u>\$ 7,496,782</u>	<u>\$ 18,631,587</u>

CITY OF KING CITY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

Functions/Programs	Net Revenue/(Expense) and Changes in Net Assets						
	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	\$ 590,032	\$ 11,660	\$ 37,542	\$ -	\$ (540,830)	\$ -	\$ (540,830)
Public safety	2,549,011	201,075	371,249	-	(1,976,687)	-	(1,976,687)
Public works	1,690,844	-	352,124	-	(1,338,720)	-	(1,338,720)
Culture and recreation	328,627	54,123	-	-	(274,504)	-	(274,504)
Community development	1,044,416	100,122	-	1,102,939	158,645	-	158,645
Debt service							
Interest and fiscal charges	108,469	-	-	-	(108,469)	-	(108,469)
Total governmental activities	6,311,399	366,980	760,915	1,102,939	(4,080,565)	-	(4,080,565)
Business-type activities							
Sewer	1,187,160	1,881,274	-	-	-	694,114	694,114
Transit	135,470	-	19,993	-	-	(115,477)	(115,477)
Total business-type activities	1,322,630	1,881,274	19,993	-	-	578,637	578,637
Total primary government	\$ 7,634,029	\$ 2,248,254	\$ 780,908	\$ 1,102,939	(4,080,565)	578,637	(3,501,928)
General Revenue							
Property taxes					668,623	-	668,623
Tax increment					715,237	-	715,237
Franchise taxes					309,674	-	309,674
Sales taxes					1,378,588	-	1,378,588
Transient occupancy taxes					284,668	-	284,668
Utility users tax					219,864	-	219,864
Business licenses					78,663	-	78,663
Motor vehicle in-lieu					709,519	-	709,519
Investment income					192,254	5,904	198,158
Gain on sale of property					428,572	-	428,572
Other revenues					33,599	-	33,599
Transfers					456,713	(456,713)	-
Total general revenue and transfers					5,475,974	(450,809)	5,025,165
Extraordinary Gain					6,200,500	-	6,200,500
Change in Net Assets					7,595,909	127,828	7,723,737
Net Assets							
Beginning of year					3,538,896	7,368,954	10,907,850
End of year					\$ 11,134,805	\$ 7,496,782	\$ 18,631,587

See accompanying notes.

CITY OF KING CITY

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2012

	General	Gas Tax	Landfill Closure	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ -	\$ -	\$ -	\$ 540,747	\$ 540,747
Accounts receivable	85,586	-	-	23,518	109,104
Due from other governments	335,795	37,021	-	101,259	474,075
Interest receivable	2,271	-	-	-	2,271
Notes receivable	108,600	-	-	-	108,600
Advances to other funds	-	1,140,247	-	-	1,140,247
Total assets	\$ 532,252	\$ 1,177,268	\$ -	\$ 665,524	\$ 2,375,044

LIABILITIES AND FUND BALANCE

Liabilities					
Accounts payable and accrued expense	\$ 247,896	\$ 15,525	\$ -	\$ 43,426	\$ 306,847
Deposits	40,481	-	-	-	40,481
Due to other funds	638,865	715,484	847,309	130,936	2,332,594
Advances from other funds	2,423,577	-	-	-	2,423,577
Total liabilities	\$ 3,350,819	\$ 731,009	\$ 847,309	\$ 174,362	\$ 5,103,499

Fund Balance

Nonspendable					
Notes receivable	108,600	-	-	-	108,600
Restricted					
Circulation improvements	-	446,259	-	255,129	701,388
Capital improvement projects	-	-	-	157,196	157,196
Public safety	-	-	-	158,741	158,741
Landscape maintenance	-	-	-	46,077	46,077
Unassigned	(2,927,167)	-	(847,309)	(125,981)	(3,900,457)
Total fund balance	(2,818,567)	446,259	(847,309)	491,162	(2,728,455)
Total liabilities and fund balance	\$ 532,252	\$ 1,177,268	\$ -	\$ 665,524	\$ 2,375,044

See accompanying notes.

CITY OF KING CITY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2012

Total governmental fund balances	\$ (2,728,455)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	15,274,052
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(941,482)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	<u>(469,310)</u>
Net assets of governmental activities	<u>\$ 11,134,805</u>

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	General	Gas Tax	Landfill Closure	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 2,720,216	\$ -	\$ -	\$ 935,101	\$ 3,655,317
Intergovernmental	1,053,099	352,124	-	1,168,150	2,573,373
Charges for services	228,749	-	-	1,545	230,294
Licenses, permits and impact fees	36,761	-	-	-	36,761
Fines and forfeitures	98,112	-	-	1,813	99,925
Interest and rent	27,310	-	-	164,944	192,254
Gain on sale of property	428,572	-	-	-	428,572
Other	10,533	-	-	23,066	33,599
Total revenue	4,603,352	352,124	-	2,294,619	7,250,095
Expenditures					
Current					
General government	899,279	-	-	-	899,279
Public safety	2,294,760	-	-	67,506	2,362,266
Public works	352,043	341,810	22,462	430,785	1,147,100
Culture and recreation	132,399	-	-	-	132,399
Community development	642,023	-	-	394,872	1,036,895
Capital outlay	-	-	-	-	-
Debt Service	-	-	-	-	-
Principal	-	-	-	206,775	206,775
Interest and fiscal charges	-	-	-	160,650	160,650
Total expenditures	4,320,504	341,810	22,462	1,260,588	5,945,364
Revenue over/(under) expenditures	282,848	10,314	(22,462)	1,034,031	1,304,731
Other Financing Sources/(Uses)					
Transfers in/(out) - net	839,309	(505,336)	-	122,740	456,713
Extraordinary Loss					
	-	-	-	(3,770,221)	(3,770,221)
Change in Fund Balance	1,122,157	(495,022)	(22,462)	(2,613,450)	(2,008,777)
Fund Balance					
Beginning of year	(3,940,724)	941,281	(824,847)	3,104,612	(719,678)
End of year	(2,818,567)	446,259	(847,309)	491,162	(2,728,455)

See accompanying notes.

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, 2012

Net change in fund balance - total governmental funds \$ (2,008,777)

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

Difference between reported extraordinary loss on the governmental financial statements and the extraordinary gain reported on the government-wide financial statements 9,970,721

Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets 301,608

In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due 52,181

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 259,164

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 (978,988)

Change in net assets of governmental activities \$ 7,595,909

CITY OF KING CITY

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Sewer	Transit	Total Business-Type Funds
ASSETS			
Current assets			
Cash and investments	\$ 4,769,307	\$ -	\$ 4,769,307
Restricted cash and investments	340,030	-	340,030
Accounts receivable	144,625	-	144,625
Due from other funds	2,491,413	-	2,491,413
Interest receivable	482	-	482
Total current assets	<u>7,745,857</u>	<u>-</u>	<u>7,745,857</u>
Non-current assets			
Advances to other funds	1,283,330	-	1,283,330
Deferred charges	342,058	-	342,058
Property, plant and equipment (net of allowance for depreciation)	<u>3,247,948</u>	<u>5,262</u>	<u>3,253,210</u>
Total noncurrent assets	<u>4,873,336</u>	<u>5,262</u>	<u>4,878,598</u>
Total assets	<u>12,619,193</u>	<u>5,262</u>	<u>12,624,455</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	65,720	5	65,725
Accrued interest	83,129	-	83,129
Due to other funds	-	158,819	158,819
Current portion of long-term debt	<u>90,000</u>	<u>-</u>	<u>90,000</u>
Total current liabilities	<u>238,849</u>	<u>158,824</u>	<u>397,673</u>
Noncurrent Liabilities			
Long-term debt	<u>4,730,000</u>	<u>-</u>	<u>4,730,000</u>
Total liabilities	<u>4,968,849</u>	<u>158,824</u>	<u>5,127,673</u>
NET ASSETS			
Invested in capital assets, net of related debt	(1,572,052)	5,262	(1,566,790)
Restricted for debt service	340,030	-	340,030
Unrestricted (deficit)	<u>8,882,366</u>	<u>(158,824)</u>	<u>8,723,542</u>
Total net assets (deficit)	<u>\$ 7,650,344</u>	<u>\$ (153,562)</u>	<u>\$ 7,496,782</u>

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS –
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2012**

	Business-Type Activities - Enterprise Funds		
	Sewer	Transit	Total Business-Type Funds
Operating Revenue			
Charges for services	\$ 1,828,724	\$ -	\$ 1,828,724
Rents and concessions	52,550	-	52,550
Total operating revenue	<u>1,881,274</u>	<u>-</u>	<u>1,881,274</u>
Operating Expense			
Contractual services and utilities	489,376	1,860	491,236
Personnel	153,377	7,858	161,235
Supplies and materials	92,593	-	92,593
Bad debt expense	-	115,228	115,228
Depreciation	189,970	10,524	200,494
Total operating expense	<u>925,316</u>	<u>135,470</u>	<u>1,060,786</u>
Operating income/(loss)	<u>955,958</u>	<u>(135,470)</u>	<u>820,488</u>
Nonoperating Revenue/(Expense)			
Intergovernmental	-	19,993	19,993
Interest income	5,904	-	5,904
Interest expense	(248,961)	-	(248,961)
Amortization on bond issuance costs	(12,883)	-	(12,883)
Total nonoperating revenue/(expense)	<u>(255,940)</u>	<u>19,993</u>	<u>(235,947)</u>
Net income/(loss) before transfers	700,018	(115,477)	584,541
Operating Transfers In/(Out), net	<u>(456,713)</u>	<u>-</u>	<u>(456,713)</u>
Change in Net Assets	<u>243,305</u>	<u>(115,477)</u>	<u>127,828</u>
Net Assets			
Beginning of year	7,407,039	(38,085)	7,368,954
End of year	<u>\$ 7,650,344</u>	<u>\$ (153,562)</u>	<u>\$ 7,496,782</u>

CITY OF KING CITY

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Sewer	Transit	Total Business-Type Funds
Operating Activities			
Receipts from customers and users	\$ 1,737,122	\$ -	\$ 1,737,122
Payments for contractual services and utilities	(445,094)	(14,122)	(459,216)
Payments to employees	(153,377)	-	(153,377)
Payments to suppliers	(92,593)	-	(92,593)
Net cash provided by (used in) operating activities	<u>1,046,058</u>	<u>(14,122)</u>	<u>1,031,936</u>
Non-capital Financial Activities			
Cash received from other governments	-	21,487	21,487
Cash received from (paid to) other funds	1,593,825	(7,365)	1,586,460
Net cash provided by (used in) noncapital financing activities	<u>1,593,825</u>	<u>14,122</u>	<u>1,607,947</u>
Capital and Related Financing Activities			
Principal paid on long-term debt	(85,000)	-	(85,000)
Interest paid on long-term debt	(250,661)	-	(250,661)
Net cash provided by (used in) capital and related financing activities	<u>(335,661)</u>	<u>-</u>	<u>(335,661)</u>
Investing Activities			
Interest received	8,562	-	8,562
Net cash provided by (used in) investing activities	<u>8,562</u>	<u>-</u>	<u>8,562</u>
Net Increase (Decrease) in Cash	2,312,784	-	2,312,784
Cash			
Beginning of year	2,796,553	-	2,796,553
End of year	<u>\$ 5,109,337</u>	<u>\$ -</u>	<u>\$ 5,109,337</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 955,958	\$ (135,470)	\$ 820,488
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	189,970	10,524	200,494
(Increase) Decrease in Accounts Receivable	(144,152)	115,228	(28,924)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	44,282	(4,404)	39,878
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,046,058</u>	<u>\$ (14,122)</u>	<u>\$ 1,031,936</u>
Noncash Investing, Capital, and Financing Activities			
Amortization of bond issue costs	<u>\$ 12,883</u>	<u>\$ -</u>	<u>\$ 12,883</u>

CITY OF KING CITY

STATEMENT OF FIDUCIARY NET ASSETS PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2012

Assets

Cash and investments	
Cash and investments	\$ 1,712,561
Cash and investments with fiscal agent	1,014,530
Interest Receivable	45
Land held for resale	1,500,250
Total assets	<u>4,227,386</u>

Liabilities

Accounts payable and accrued liabilities	320,819
Interest payable	229,651
Long-term debt	
Due within one year	160,000
Due in more than one year	9,545,843
Total liabilities	<u>10,256,313</u>

Net Assets

Held in trust for other governments	<u>\$ (6,028,927)</u>
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CITY OF KING CITY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2012

Additions

Property taxes	\$	505,690
Investment earnings and other		<u>10,265</u>
Total additions		<u>515,955</u>

Deductions

Administrative costs		39,356
Interest and fiscal agency expenses of former redevelopment agency		<u>305,026</u>
Total deductions		<u>344,382</u>

Extraordinary loss (6,200,500)

Change In Net Assets (6,028,927)

Net Assets

Beginning of year		<u>-</u>
End of year	\$	<u>(6,028,927)</u>

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units is combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

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.

Included in this report is the Community Development Agency of the City of King City (the Agency). The Agency was established to administer the City's redevelopment activities and projects. Members of the City Council automatically sit as the Agency Board, the City Manager is appointed as Executive Director with the City staff providing all support services. All redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) 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 and Changes in Net Assets 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.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Net assets 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 assets. 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 and the blended component unit. 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.

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.

Landfill Closure Fund – The fund is used to account for post-closure costs for the City's landfill.

The City reports the following major proprietary funds:

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.

Transit System Fund – The fund accounts for the maintenance and operation of the City's demand-response transit system. Financing is provided in part by bus fares, but mostly subsidized by funds received from the Transportation Development Act which administered by the Monterey County Transportation Commission.

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.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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.

For its government-wide activities and Enterprise Funds, the City has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

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.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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 cost or amortized cost.

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, 2012, 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.

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 Assets 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.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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

Deferred Revenue – Revenues received but not yet earned are deferred until such time as those monies meet the revenue recognition criteria. In the case of intergovernmental revenues in the fund financial statements (e.g., grants, entitlements and shared revenue), the basis of accounting for such revenue is determined according to the procedures common to each type in which the grant, entitlement, or shared revenue is recorded. Grants, entitlements and shared revenues receive earlier than the time established by the revenue recognition criteria are reported as deferred revenues. Revenues earned but not yet received, may not be available in a timely manner to pay current expenditures or obligations. Such receivables, not meeting the availability criteria necessary for accrual under modified accrual basis accounting principles, are offset by deferred revenue and revenue is not recognized for that period in the fund financial statements. In the government-wide financial statements, however, availability criteria are not considered. Instead, revenues become and remain receivable, from the point in time when revenue is earned through performance or similar recognition standards, until received.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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 Assets. 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 Assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 Assets.

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 8 for further discussion.

Bond Discount and Issuance Costs - For governmental funds, bond discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures. For business-type funds, bond discounts, as well as issuance costs, are deferred and amortized over the life, of the bonds. Bonds payable are reported net of applicable bond discounts. Issuance costs are reported as deferred charges.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Assets/Fund Equity - The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. 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 Assets - This category presents external restrictions on net assets 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 Assets - This category represents net assets 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 GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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.

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.

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

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and Investments	\$ 5,310,054
Restricted Cash and Investments	340,030
Fiduciary Funds:	
Cash and Investments	1,712,561
Cash and Investments with fiscal agent	<u>1,014,530</u>
Total Cash and Investments	<u>\$ 8,377,175</u>

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 920
Deposits with Financial Institutions	1,579,248
Local Agency Investment Fund	3,261,674
Certificates of Deposit	984,850
Money Market Mutual Funds	1,195,923
Held by Fiscal Agent:	
Money Market Mutual Funds	1,014,530
Government Investment Contracts	<u>340,030</u>
Total Cash and Investments	<u>\$ 8,377,175</u>

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

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.

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%

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage Allowed</u>
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 GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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, 2012 the City had the following investments.

Investment Type	12 Months or less	13 to 24 Months	25 to 84 Months	Total
LAIF	\$ 3,261,674	\$ -	\$ -	\$ 3,261,674
Certificates of Deposit	984,850	-	-	984,850
Money Market Mutual Funds	2,210,453	-	-	2,210,453
Government Investment Contract	-	-	340,030	340,030
Total Investments	\$ 6,456,977	\$ -	\$ 340,030	6,797,007
Cash in bank and on hand				1,580,168
Total Cash and Investments				\$ 8,377,175

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	\$ -	\$ -	\$ 984,850	\$ 984,850
Money Market Mutual Funds	1,725,714	484,739	-	2,210,453
Total Investments	\$ 1,725,714	\$ 484,739	\$ 984,850	3,195,303
Not rated:				
LAIF				3,261,674
Government Investment Contract				340,030
Cash in bank and on hand				1,580,168
Total Cash and Investments				\$ 8,377,175

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

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.

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, 2012, 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	\$ 1,014,530
Government Investment Contracts	340,030

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 3 – Cash and Investments (Continued)

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.

Note 4 – Interfund Advances, 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, 2012 are as follows:

	<u>Due From</u>	<u>Due To</u>
Sewer Fund	\$ 2,491,413	\$ -
Transit Fund	-	158,819
General Fund	-	638,865
Gas Tax Fund	-	715,484
Landfill Closure Fund	-	847,309
Airport Operations Fund	-	23,785
Capital Projects Fund	-	26,022
Development Impact Fee Fund	-	81,129
	<u>\$ 2,491,413</u>	<u>\$ 2,491,413</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.

CITY OF KING CITY

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

Note 4 – Interfund Advances, Receivables, Payables and Transfers (Continued)

Advances From/To Other Funds

Advances receivable and payable constitute long-term borrowing between funds. Advances typically carry a stated interest rate and have scheduled debt service payments. Interfund advances receivable and payable balances at June 30, 2012 are as follows:

	<u>Advances Receivable</u>	<u>Advances Payable</u>
Sewer Fund	\$ 1,283,330	\$ -
Gas Tax Fund	1,140,247	-
General Fund	-	2,423,577
	<u>\$ 2,423,577</u>	<u>\$ 2,423,577</u>

The amounts payable to the Sewer Fund and Gas Tax Fund by the General Fund relate to past settlements. None of these advances are expected to be collected in the subsequent 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	\$ 839,309	\$ -
Gas Tax Fund	-	505,336
Enterprise Funds:		
Sewer Fund	-	456,713
Nonmajor Governmental Funds:		
Local Transportation Fund	217,311	-
CDBG Grant Fund	-	112,869
UUT Public Safety Fund	-	318,622
Prop 1B Fund	14,180	-
First Street Rehabilitation Fund	273,846	-
Capital Projects Fund	48,894	-
	<u>\$ 1,393,540</u>	<u>\$ 1,393,540</u>

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 5 – Capital Assets

Capital asset activities for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</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	2,755,547	146,576	-	2,902,123
Total capital assets, being depreciated	<u>24,897,779</u>	<u>146,576</u>	<u>-</u>	<u>25,044,355</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,875,655)	(232,570)	-	(5,108,225)
Infrastructure	(1,959,733)	(599,998)	-	(2,559,731)
Machinery and equipment	(2,169,466)	(146,420)	-	(2,315,886)
Total accumulated depreciation	<u>(9,004,854)</u>	<u>(978,988)</u>	<u>-</u>	<u>(9,983,842)</u>
Total capital assets, being depreciated, net	<u>15,892,925</u>	<u>(832,412)</u>	<u>-</u>	<u>15,060,513</u>
Governmental activities capital assets, net	<u>\$ 16,106,464</u>	<u>\$ (832,412)</u>	<u>\$ -</u>	<u>\$ 15,274,052</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	-	-	6,166,705
Plant and equipment	1,276,731	-	-	1,276,731
Total capital assets, being depreciated	<u>7,443,436</u>	<u>-</u>	<u>-</u>	<u>7,443,436</u>
Less: accumulated depreciation	<u>(4,753,825)</u>	<u>(200,494)</u>	<u>-</u>	<u>(4,954,319)</u>
Total capital assets, being depreciated, net	<u>2,689,611</u>	<u>(200,494)</u>	<u>-</u>	<u>2,489,117</u>
Business-type activities capital assets, net	<u>\$ 3,453,704</u>	<u>\$ (200,494)</u>	<u>\$ -</u>	<u>\$ 3,253,210</u>

CITY OF KING CITY

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	44,750
Public Safety		186,745
Public Works		543,744
Culture and Recreation		196,228
Community Development		7,521
	\$	<u>978,988</u>

Business-Type Functions:

Sewer	\$	189,970
Transit		10,524
	\$	<u>200,494</u>

Note 6 – 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:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portion</u>
<u>Government-Type Activity Long Term Debt</u>					
Pension related debt	\$ 986,513	\$ -	\$ (94,833)	\$ 891,680	\$ 107,749
Vehicle capital lease	-	146,576	(96,774)	49,802	24,164
Total Government-Type Activity Debt	<u>\$ 986,513</u>	<u>\$ 146,576</u>	<u>\$ (191,607)</u>	<u>\$ 941,482</u>	<u>\$ 131,913</u>
<u>Business-Type Activity Long Term Debt</u>					
2009 Refunding Certificates of Participation	\$ 4,905,000	\$ -	\$ (85,000)	\$ 4,820,000	\$ 90,000
Total Business-Type Activity Debt	<u>\$ 4,905,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 4,820,000</u>	<u>\$ 90,000</u>
<u>Compensated Absences</u>					
Government Activities	\$ 728,474	\$ -	\$ (259,164)	\$ 469,310	
Business-Type Activities	\$ 1,493	\$ -	\$ (1,493)	\$ -	

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 6 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2012 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 terminates on July 13, 2014. The outstanding balance of the lease as of June 30, 2012 was \$49,802.

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 2011-12 fiscal year, the Authority was in compliance with these bond covenants.

CITY OF KING CITY

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012**

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2012 was:

Years ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 131,913	\$ 64,831	\$ 90,000	\$ 247,811
2014	147,486	54,796	90,000	244,661
2015	137,226	44,405	95,000	241,614
2016	82,280	36,173	95,000	238,526
2017	92,654	29,649	100,000	235,061
2018-2022	349,923	41,353	575,000	1,107,756
2023-2027	-	-	720,000	951,042
2028-2032	-	-	925,000	729,885
2033-2037	-	-	1,220,000	432,600
2038-2040	-	-	910,000	78,400
	<u>\$ 941,482</u>	<u>\$ 271,207</u>	<u>\$ 4,820,000</u>	<u>\$ 4,507,356</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, 2012 the outstanding balance on both COPS Series was \$10,222,741.

Note 7 – 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, 2012:

Governmental Funds	
General	\$(2,818,567)
Landfill Closure	(847,309)
Airport	(42,689)
Development Impact Fees	(83,292)
Enterprise Fund	
Transit	<u>(153,562)</u>
	<u>\$(3,945,419)</u>

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

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 8 – 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 9.716 percent for non-safety employees and 19.204 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, 2012, the City's annual pension cost of \$405,108 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, 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, 2010	\$ 396,621	100%	-
June 30, 2011	\$ 505,216	100%	-
June 30, 2012	\$ 405,108	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, 2012, plan members and the City contributed \$35,489 and \$6,378, respectively.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 9 – 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 10 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through March 22, 2013, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2012 that required recognition or disclosure in such financial statements.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 11 - 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 assets as of June 30, 2012. 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 assets. 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 assets, 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.

Note 12 - Successor Agency Trust For Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of King City that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. The City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments.)

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Note 12 – Successor Agency Trust For Assets of Former Redevelopment Agency (Continued)

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds - increase to net assets of the Successor Agency Trust Fund	\$ 3,770,221
Accrued bond interest reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	(264,878)
Long-term debt reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	<u>(9,705,843)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	<u>\$ (6,200,500)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 2,477,689	\$ 2,477,689	\$ 2,720,216	\$ 242,527
Intergovernmental	1,055,500	1,055,500	1,053,099	(2,401)
Charges for services	333,250	333,250	228,749	(104,501)
Licenses and permits	96,700	96,700	36,761	(59,939)
Fines and forfeitures	115,000	115,000	98,112	(16,888)
Interest and rents	-	-	27,310	27,310
Interest and rents	-	-	428,572	428,572
Other	5,000	5,000	10,533	5,533
Total revenue	<u>4,083,139</u>	<u>4,083,139</u>	<u>4,603,352</u>	<u>520,213</u>
Expenditures				
Current				
General government	877,182	877,182	899,279	(22,097)
Public safety	2,647,370	2,647,370	2,294,760	352,610
Public works	532,515	532,515	352,043	180,472
Culture and recreation	130,695	130,695	132,399	(1,704)
Community development	548,060	548,060	642,023	(93,963)
Total expenditures	<u>4,735,822</u>	<u>4,735,822</u>	<u>4,320,504</u>	<u>415,318</u>
Revenue over (under) expenditures	(652,683)	(652,683)	282,848	935,531
Other Financing Sources				
Transfers in (out), net	<u>585,821</u>	<u>585,821</u>	<u>839,309</u>	<u>253,488</u>
Net Change in Fund Balance	<u>\$ (66,862)</u>	<u>\$ (66,862)</u>	<u>1,122,157</u>	<u>\$ 1,189,019</u>
Fund Balance				
Beginning of year			<u>(3,940,724)</u>	
End of year			<u>\$ (2,818,567)</u>	

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE

GAS TAX FUND

YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 640,000	\$ 640,000	\$ 352,124	\$ (287,876)
Interest	40,000	40,000	-	(40,000)
Total revenue	<u>680,000</u>	<u>680,000</u>	<u>352,124</u>	<u>(327,876)</u>
Expenditures				
Current				
Public works	413,715	413,715	341,810	71,905
Total expenditures	<u>413,715</u>	<u>413,715</u>	<u>341,810</u>	<u>71,905</u>
Revenue over (under) expenditures	266,285	266,285	10,314	(255,971)
Other Financing Sources				
Transfers in (out), net	<u>(55,000)</u>	<u>(55,000)</u>	<u>(505,336)</u>	<u>(450,336)</u>
Net Change in Fund Balance	<u>\$ 211,285</u>	<u>\$ 211,285</u>	<u>(495,022)</u>	<u>\$ (706,307)</u>
Fund Balance				
Beginning of year			941,281	
End of year			<u>\$ 446,259</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
 LANDFILL CLOSURE FUND
 YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Other	\$ -	\$ -	\$ -	\$ -
Total revenue	-	-	-	-
Expenditures				
Current				
Public works	37,500	37,500	22,462	15,038
Total expenditures	37,500	37,500	22,462	15,038
Revenue over/(under) expenditures	<u>(37,500)</u>	<u>(37,500)</u>	(22,462)	<u>\$ 15,038</u>
Fund Balance				
Beginning of year			(824,847)	
End of year			<u>(847,309)</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KING CITY

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue Funds									
	SLESF/COPS Grant	Local Transportation	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations	Traffic Safety	CDBG Grant	UUT-Public Safety	
ASSETS										
Cash and investments	\$ 98,654	\$ -	\$ 211,569	\$ 14,371	\$ 46,087	\$ -	\$ 43,308	\$ 126,758	\$ -	\$ -
Accounts receivable	-	-	-	-	-	-	252	-	-	23,266
Due from other governments	25,000	-	-	-	-	14,969	-	30,496	-	-
Total assets	\$ 123,654	\$ -	\$ 211,569	\$ 14,371	\$ 46,087	\$ 14,969	\$ 43,560	\$ 157,254	\$ 23,266	\$ 23,266
LIABILITIES AND FUND BALANCE										
Liabilities										
Accounts payable and accrued expense	\$ 2,550	\$ -	\$ -	\$ -	\$ 10	\$ 33,873	\$ -	\$ 58	\$ -	\$ -
Due to other funds	-	-	-	-	-	23,785	-	-	-	-
Total liabilities	2,550	-	-	-	10	57,658	-	58	-	-
Fund Balance										
Restricted										
Circulation improvements	-	-	211,569	-	-	-	43,560	-	-	-
Capital improvement projects	-	-	-	-	-	-	-	157,196	-	-
Public safety	121,104	-	-	14,371	-	-	-	-	-	23,266
Landscape maintenance	-	-	-	-	46,077	-	-	-	-	-
Unassigned	-	-	-	-	-	(42,689)	-	-	-	-
Total fund balance	121,104	-	211,569	14,371	46,077	(42,689)	43,560	157,196	-	23,266
Total liabilities and fund balance	\$ 123,654	\$ -	\$ 211,569	\$ 14,371	\$ 46,087	\$ 14,969	\$ 43,560	\$ 157,254	\$ 23,266	\$ 23,266

CITY OF KING CITY

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Special Revenue Funds				Capital Projects Funds			Debt Service Fund		Total
	Prop 1B	First Street Rehabilitation	CDA		Capital Projects	1996 and 1998 Bond Issue	Development Impact Fees	CDA Debt Service	Non-major Governmental Funds	
			Special Revenue	Low/Mod Income Housing						
ASSETS										
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 540,747
Accounts receivable	-	-	-	-	-	-	-	-	-	23,518
Due from other governments	-	-	-	-	30,794	-	-	-	-	101,259
Total assets	\$ -	\$ -	\$ -	\$ -	\$ 30,794	\$ -	\$ -	\$ -	\$ -	\$ 665,524
LIABILITIES AND FUND BALANCE										
Liabilities										
Accounts payable and accrued expense	\$ -	\$ -	\$ -	\$ -	\$ 4,772	\$ -	\$ 2,163	\$ -	\$ -	\$ 43,426
Due to other funds	-	-	-	-	26,022	-	81,129	-	-	130,936
Total liabilities	-	-	-	-	\$ 30,794	-	\$ 83,292	-	-	\$ 174,362
Fund Balance										
Restricted										
Circulation improvements	-	-	-	-	-	-	-	-	-	255,129
Capital improvement projects	-	-	-	-	-	-	-	-	-	157,196
Public safety	-	-	-	-	-	-	-	-	-	158,741
Landscape maintenance	-	-	-	-	-	-	-	-	-	46,077
Unassigned	-	-	-	-	-	-	(83,292)	-	-	(125,981)
Total fund balance	-	-	-	-	-	-	(83,292)	-	-	491,162
Total liabilities and fund balance	\$ -	\$ -	\$ -	\$ -	\$ 30,794	\$ -	\$ -	\$ -	\$ -	\$ 665,524

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds									
	SLESF/COPS Grant	Local Transportation	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations	Traffic Safety	CDBG Grant	UUT-Public Safety	
Revenue										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 461	\$ -	\$ -	\$ -	\$ -	\$ 219,864
Intergovernmental	126,116	-	-	2,639	-	257,468	-	544,715	-	-
Charges for services	-	-	-	-	-	1,545	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	1,813	-	-	-
Interest and rent	-	-	-	-	-	106,836	-	-	-	-
Other	-	-	-	-	-	-	-	23,066	-	-
Total revenue	<u>126,116</u>	<u>-</u>	<u>-</u>	<u>2,639</u>	<u>461</u>	<u>365,849</u>	<u>1,813</u>	<u>567,781</u>	<u>-</u>	<u>219,864</u>
Expenditures										
Public safety	67,506	-	-	-	-	-	-	-	-	-
Public works	-	13,190	-	-	113	417,482	-	-	-	-
Community development	-	-	-	-	-	-	-	271,473	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Principal	96,775	-	-	-	-	-	-	-	-	-
Interest	3,593	-	-	-	-	-	-	-	-	-
Total expenditures	<u>167,874</u>	<u>13,190</u>	<u>-</u>	<u>-</u>	<u>113</u>	<u>417,482</u>	<u>-</u>	<u>271,473</u>	<u>-</u>	<u>-</u>
Revenue over (under) expenditures	(41,758)	(13,190)	-	2,639	348	(51,633)	1,813	296,308	-	219,864
Other financing sources/(uses)										
Transfers in/(out), net	-	217,311	-	-	-	-	-	(112,869)	-	(318,622)
Total other financing sources (uses)	<u>-</u>	<u>217,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(112,869)</u>	<u>-</u>	<u>(318,622)</u>
Extraordinary Loss										
Change in Fund Balance	(41,758)	204,121	-	2,639	348	(51,633)	1,813	183,439	-	(98,758)
Fund Balance										
Beginning of year	162,862	(204,121)	211,569	11,732	45,729	8,944	41,747	(26,243)	-	122,024
End of year	\$ 121,104	\$ -	\$ 211,569	\$ 14,371	\$ 46,077	\$ (42,689)	\$ 43,560	\$ 157,196	\$ -	\$ 23,266

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds			Capital Projects Funds			Debt Service Fund		Total Non-major Governmental Funds
	Prop 1B	First Street Rehabilitation	CDA Special Revenue	CDA Low/Mod Income Housing	Capital Projects	1996 and 1998 Bond Issue	Development Impact Fees	CDA Debt Service	
Revenue									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 714,776	\$ 935,101
Intergovernmental	-	139,534	-	-	97,678	-	-	-	1,168,150
Charges for services	-	-	-	-	-	-	-	-	1,545
Fines and forfeitures	-	-	-	-	-	-	-	-	1,813
Interest and rent	-	-	1,294	-	-	-	-	56,814	164,944
Other	-	-	-	-	-	-	-	-	23,066
Total revenue	-	139,534	1,294	-	97,678	-	-	771,590	2,294,619
Expenditures									
Public safety	-	-	-	-	-	-	-	-	67,506
Public works	-	-	-	-	-	-	-	-	430,785
Community development	-	13,349	18,440	7,679	74,093	-	9,838	-	394,872
Capital outlay	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	206,775
Interest	-	-	-	-	-	-	-	110,000	160,650
Total expenditures	-	13,349	18,440	7,679	74,093	-	9,838	157,057	1,260,588
Revenue over (under) expenditures	-	126,185	(17,146)	(7,679)	23,585	-	(9,838)	504,533	1,034,031
Other financing sources/(uses)									
Transfers in/(out), net	14,180	273,846	-	-	48,894	-	-	-	122,740
Total other financing sources (uses)	14,180	273,846	-	-	48,894	-	-	-	122,740
Extraordinary Loss	-	-	360,868	(3,939,725)	-	(3,669)	-	(187,695)	(3,770,221)
Change in Fund Balance	14,180	400,031	343,722	(3,947,404)	72,479	(3,669)	(9,838)	316,838	(2,613,450)
Fund Balance									
Beginning of year	(14,180)	(400,031)	(343,722)	3,947,404	(72,479)	3,669	(73,454)	(316,838)	3,104,612
End of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (83,292)	\$ -	\$ 491,162

See accompanying notes.

**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 *GOVERNMENTAL AUDITING STANDARDS***

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

We have audited the financial statements of the City of King City, as of, and for the year ended June 30, 2012, and have issued our report thereon dated January 30, 2013. 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.

Internal Control Over Financial Reporting

Management of the City of King City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of King City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

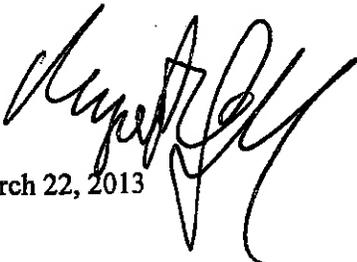
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination 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. We consider the deficiencies described in items 2012-01 through 2012-02 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of King City's financial statements are free of 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*.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be 'August 13', written in a cursive style.

March 22, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

We have audited the compliance of the City of King City (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 the 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of King City as of and for the year ended June 30, 2012, and have issued our report thereon dated January 30, 2013. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of King City's basic financial statements as a whole. The 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be 'M. D. ...', is written over the date.

March 22, 2013

CITY OF KING CITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Housing and Community Development			
Pass-through from the State Department of Housing and Community Development			
Community Development Block Grant	14.228	09-STBG-6423	\$ 333,126
U.S. Department of Justice			
ARRA COPS Hiring Recovery Program	16.710	2009-RKWX-0131	168,662
Bullet Proof Vest Program	16.607	N/A	1,116
			<u>169,778</u>
U.S. Department of Transportation			
Federal Aviation Administration	20.507	3-06-0113-10	<u>257,468</u>
U.S. Department of Energy			
Pass-through from California Energy Commission			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	CBG-09-007	<u>63,544</u>
<i>Total Federal Expenditures</i>			<u>\$ 823,916</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, 2012**

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
14.228	Community Development Block Grant
20.507	Federal Aviation Administration

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, 2012

B. Findings – Financial Statements Audit

2012-01 Bank Reconciliations (Material Weakness)

Criteria:

Failure to reconcile cash in a timely manner is a weakness in internal controls over a significant account balance.

Condition:

Cash was not reconciled to the general ledger on a monthly basis. Bank statements accumulated for several months to a year before they were reconciled to the appropriate general ledger accounts.

Cause:

Failure on the part of the Finance Department to prioritize the cash reconciliation process.

Effect:

By not reconciling the bank accounts to the general ledger on a monthly basis, errors or other problems might not be recognized and resolved on a timely basis.

Recommendation:

Timely preparation of complete and accurate bank reconciliations is key to maintaining adequate internal control over cash. Bank reconciliations should be performed on all bank accounts in a timely manner after month-end. The bank reconciliations should be formally approved. Any discrepancies should be investigated and all errors and omissions should be posted to the general ledger.

Management Corrective Action Plan:

Management acknowledges there was a failure to perform bank reconciliations on a monthly basis. Management has hired an outside accounting consultant to assist with monthly bank reconciliations.

CITY OF KING CITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) YEAR ENDED JUNE 30, 2012

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.

Management Corrective Action Plan:

Management acknowledges the necessity to book the liability and will work towards establishing an estimate.

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, 2012

Summary Schedule of Prior Audit Findings

- 2011-01 Land Held For Resale – Implemented**
- 2011-02 Landfill Postclosure Costs – Not Implemented. See Finding 2012-02.**
- 2011-03 General Ledger Reconciliations and Journal Entries – Implemented**
- 2011-04 Segregation of Duties – Implemented**
- 2011-05 Purchasing Policy – Implemented**
- 2011-06 Interest Income Allocation – Implemented**
- 2011-07 Cash Handling – Implemented**
- 2011-08 Cash Receipts – Implemented**
- 2011-09 Payroll Documentation – Implemented**
- 2011-10 Compensated Absences – Implemented**
- 2011-A Submission of Single Audit Reporting Package – Implemented**
- 2011-B Reimbursement Amounts – Implemented**