

CITY OF KING CITY

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2013**

C O N T E N T S

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements	
Balance Sheet - Governmental Funds	5
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	6
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	7
Reconciliation of Statement of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	8
Statement of Net Position - Proprietary Funds	9
Statement of Revenue, Expense and Changes in Fund Net Position - Proprietary Funds	10
Statement of Cash Flow - Proprietary Funds	11
Statement of Fiduciary Net Position – Private-Purpose Trust Fund – Successor Agency	12
Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Fund – Successor Agency	13
Notes to General Purpose Financial Statements	14 - 34

C O N T E N T S (Continued)

	<u>Page</u>
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	35
Budgetary Comparison Schedule – Gas Tax Fund	36
Budgetary Comparison Schedule – Development Impact Fees Fund	37
Supplemental Only Information	
Combining Balance Sheet - Nonmajor Governmental Funds	38 – 39
Combining Statement of Revenue, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	40 – 41
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 <i>GOVERNMENT AUDITING STANDARDS</i>	42 – 43
SCHEDULE OF FINDINGS	44 - 45

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

As discussed in Note 11, the City has not estimated and reported a liability for landfill 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

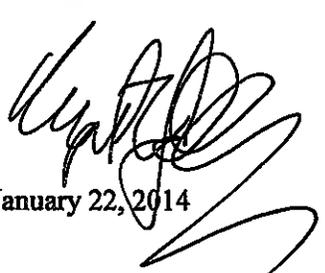
Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2014, on our consideration of the City of King City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of King City's internal control over financial reporting and compliance.



January 22, 2014

CITY OF KING CITY

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 1,878,232	\$ 5,796,635	\$ 7,674,867
Restricted cash and investments	-	340,065	340,065
Accounts receivable	48,835	170,332	219,167
Due from other governments	382,826	-	382,826
Interest receivable	2,602	45	2,647
Notes receivable	104,773	-	104,773
Internal balances	(3,775,025)	3,775,025	-
Deferred charges	-	329,818	329,818
Capital assets (net of allowance for depreciation)	14,332,668	3,073,432	17,406,100
Total assets	<u>12,974,911</u>	<u>13,485,352</u>	<u>26,460,263</u>
LIABILITIES			
Accounts payable and accrued expense	532,057	58,457	590,514
Accrued interest	-	82,079	82,079
Deposits	51,511	-	51,511
Compensated absences	490,990	-	490,990
Noncurrent liabilities			
Due within one year	147,486	90,000	237,486
Due in more than one year	662,083	4,640,000	5,302,083
Total liabilities	<u>1,884,127</u>	<u>4,870,536</u>	<u>6,754,663</u>
NET POSITION			
Net investment in capital assets	14,307,030	(1,656,568)	12,650,462
Restricted for debt service	-	340,065	340,065
Restricted for capital projects	1,623,750	-	1,623,750
Restricted for specific projects and programs	234,268	-	234,268
Unrestricted (deficit)	(5,074,264)	9,931,319	4,857,055
Total net position	<u>\$ 11,090,784</u>	<u>\$ 8,614,816</u>	<u>\$ 19,705,600</u>

CITY OF KING CITY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Program Revenue				Primary Government			Total
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Net Revenue/(Expense) and Changes in Net Position	
Primary Government								
Governmental activities								
General government	\$ 635,694	\$ 8,753	\$ 21,494	\$ -	\$ (605,447)	\$ -	\$ (605,447)	
Public safety	3,033,573	187,658	155,455	-	(2,690,460)	-	(2,690,460)	
Public works	1,346,586	-	285,905	-	(1,060,681)	-	(1,060,681)	
Culture and recreation	341,962	66,936	-	-	(275,026)	-	(275,026)	
Community development	843,203	150,705	157,515	1,155,473	620,490	-	620,490	
Debt service	3,038	-	-	-	(3,038)	-	(3,038)	
Interest and fiscal charges	6,204,056	414,052	620,369	1,155,473	(4,014,162)	-	(4,014,162)	
Total governmental activities	1,121,970	2,428,440	-	-	-	1,306,470	1,306,470	
Business-type activities								
Sewer	-	-	-	-	-	-	-	
Transit	1,121,970	2,428,440	-	-	-	1,306,470	1,306,470	
Total business-type activities	1,121,970	2,428,440	-	-	-	1,306,470	1,306,470	
Total primary government	\$ 7,326,026	\$ 2,842,492	\$ 620,369	\$ 1,155,473	(4,014,162)	1,306,470	(2,707,692)	
General Revenue								
Property taxes					692,685	-	692,685	
Franchise taxes					303,181	-	303,181	
Sales taxes					1,413,625	-	1,413,625	
Transient occupancy taxes					326,526	-	326,526	
Utility users tax					231,758	-	231,758	
Business licenses					82,286	-	82,286	
Motor vehicle in-lieu					724,010	-	724,010	
Investment income					134,385	8,002	142,387	
Gain/(loss) on sale of equipment					-	(5,262)	(5,262)	
Other revenues					54,511	-	54,511	
Transfers					191,176	(191,176)	-	
Total general revenue and transfers					4,154,143	(188,436)	3,965,707	
Change in Net Position					139,981	1,118,034	1,258,015	
Net Position								
Beginning of year					11,134,805	7,496,782	18,631,587	
Prior period adjustment					(184,002)	-	(184,002)	
End of year					\$ 11,090,784	\$ 8,614,816	\$ 19,705,600	

CITY OF KING CITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	General	Gas Tax	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ -	\$ 348,473	\$ 950,011	\$ 579,748	\$ 1,878,232
Accounts receivable	7,163	-	-	41,672	48,835
Due from other governments	298,571	26,241	-	58,014	382,826
Interest receivable	2,602	-	-	-	2,602
Notes receivable	104,773	-	-	-	104,773
Total assets	\$ 413,109	\$ 374,714	\$ 950,011	\$ 679,434	\$ 2,417,268
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued expense	\$ 426,721	\$ 54,176	\$ 5,436	\$ 45,724	\$ 532,057
Deposits	51,511	-	-	-	51,511
Due to other funds	3,715,783	-	-	59,242	3,775,025
Total liabilities	4,194,015	54,176	5,436	104,966	4,358,593
Fund Balance					
Nonspendable					
Notes receivable	104,773	-	-	-	104,773
Restricted					
Circulation improvements	-	320,538	-	255,129	575,667
Capital improvement projects	-	-	944,575	103,508	1,048,083
Public safety	-	-	-	188,313	188,313
Landscape maintenance	-	-	-	45,955	45,955
Unassigned	(3,885,679)	-	-	(18,437)	(3,904,116)
Total fund balance	(3,780,906)	320,538	944,575	574,468	(1,941,325)
Total liabilities and fund balance	\$ 413,109	\$ 374,714	\$ 950,011	\$ 679,434	\$ 2,417,268

See accompanying notes.

CITY OF KING CITY

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013**

Total governmental fund balances \$ (1,941,325)

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds 14,332,668

Governmental long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the funds (809,569)

Compensated absences are not due and payable in the current period
and, therefore, are not reported in the funds (490,990)

Net position of governmental activities \$ 11,090,784

CITY OF KING CITY

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2013

	General	Gas Tax	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 2,818,303	\$ -	\$ -	\$ 231,758	\$ 3,050,061
Intergovernmental	802,908	285,905	-	295,467	1,384,280
Charges for services	308,526	-	-	1,674	310,200
Licenses, permits and impact fees	78,136	-	1,037,436	-	1,115,572
Fines and forfeitures	100,370	-	-	3,482	103,852
Interest and rent	28,938	-	-	105,447	134,385
Other	54,511	-	-	-	54,511
Total revenue	<u>4,191,692</u>	<u>285,905</u>	<u>1,037,436</u>	<u>637,828</u>	<u>6,152,861</u>
Expenditures					
Current					
General government	681,781	-	-	-	681,781
Public safety	2,820,364	-	-	44,908	2,865,272
Public works	322,789	408,491	-	77,991	809,271
Culture and recreation	147,936	-	-	-	147,936
Community development	608,732	-	9,569	223,142	841,443
Capital outlay	-	-	-	-	-
Debt Service	-	-	-	-	-
Principal	-	-	-	24,164	24,164
Interest and fiscal charges	-	-	-	3,038	3,038
Total expenditures	<u>4,581,602</u>	<u>408,491</u>	<u>9,569</u>	<u>373,243</u>	<u>5,372,905</u>
Revenue over/(under) expenditures	(389,910)	(122,586)	1,027,867	264,585	779,956
Other Financing Sources/(Uses)					
Transfers in/(out) - net	(388,427)	(3,135)	-	582,738	191,176
Change in Fund Balance	(778,337)	(125,721)	1,027,867	847,323	971,132
Fund Balance					
Beginning of year	(2,818,567)	446,259	(83,292)	(272,855)	(2,728,455)
Prior period adjustment	(184,002)	-	-	-	(184,002)
End of year	<u>(3,780,906)</u>	<u>\$ 320,538</u>	<u>\$ 944,575</u>	<u>\$ 574,468</u>	<u>\$ (1,941,325)</u>

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, 2013**

Net change in fund balance - total governmental funds \$ 971,132

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

Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position 131,913

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 (21,680)

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 (941,384)

Change in net position of governmental activities \$ 139,981

CITY OF KING CITY

**STATEMENT OF NET POSITION – PROPRIETARY FUNDS
JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds		Total Business-Type Funds
	Sewer	Transit	
ASSETS			
Current assets			
Cash and investments	\$ 5,796,635	\$ -	\$ 5,796,635
Restricted cash and investments	340,065	-	340,065
Accounts receivable	170,332	-	170,332
Due from other funds	3,775,025	-	3,775,025
Interest receivable	45	-	45
Total current assets	<u>10,082,102</u>	<u>-</u>	<u>10,082,102</u>
Non-current assets			
Deferred charges	329,818	-	329,818
Property, plant and equipment (net of allowance for depreciation)	<u>3,073,432</u>	<u>-</u>	<u>3,073,432</u>
Total noncurrent assets	<u>3,403,250</u>	<u>-</u>	<u>3,403,250</u>
Total assets	<u>13,485,352</u>	<u>-</u>	<u>13,485,352</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	58,457	-	58,457
Accrued interest	82,079	-	82,079
Current portion of long-term debt	<u>90,000</u>	<u>-</u>	<u>90,000</u>
Total current liabilities	<u>230,536</u>	<u>-</u>	<u>230,536</u>
Noncurrent Liabilities			
Long-term debt	<u>4,640,000</u>	<u>-</u>	<u>4,640,000</u>
Total liabilities	<u>4,870,536</u>	<u>-</u>	<u>4,870,536</u>
NET POSITION			
Net investment in capital assets	(1,656,568)	-	(1,656,568)
Restricted for debt service	340,065	-	340,065
Unrestricted (deficit)	<u>9,931,319</u>	<u>-</u>	<u>9,931,319</u>
Total net position (deficit)	<u>\$ 8,614,816</u>	<u>\$ -</u>	<u>\$ 8,614,816</u>

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds		
	Sewer	Transit	Total Business-Type Funds
Operating Revenue			
Charges for services	\$ 2,375,890	\$ -	\$ 2,375,890
Rents and concessions	52,550	-	52,550
Total operating revenue	<u>2,428,440</u>	<u>-</u>	<u>2,428,440</u>
Operating Expense			
Contractual services and utilities	439,403	-	439,403
Personnel	163,152	-	163,152
Supplies and materials	85,899	-	85,899
Depreciation	174,516	-	174,516
Total operating expense	<u>862,970</u>	<u>-</u>	<u>862,970</u>
Operating income/(loss)	<u>1,565,470</u>	<u>-</u>	<u>1,565,470</u>
Nonoperating Revenue/(Expense)			
Intergovernmental	-	-	-
Interest income	8,002	-	8,002
Interest expense	(246,761)	-	(246,761)
Loss on disposal of asset	-	(5,262)	(5,262)
Amortization on bond issuance costs	(12,239)	-	(12,239)
Total nonoperating revenue/(expense)	<u>(250,998)</u>	<u>(5,262)</u>	<u>(256,260)</u>
Net income/(loss) before transfers	1,314,472	(5,262)	1,309,210
Operating Transfers In/(Out), net	<u>(350,000)</u>	<u>158,824</u>	<u>(191,176)</u>
Change in Net Position	<u>964,472</u>	<u>153,562</u>	<u>1,118,034</u>
Net Position			
Beginning of year	7,650,344	(153,562)	7,496,782
End of year	<u>\$ 8,614,816</u>	<u>\$ -</u>	<u>\$ 8,614,816</u>

CITY OF KING CITY

**STATEMENT OF CASH FLOW - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Total Business- Type Funds</u>
	<u>Sewer</u>	<u>Transit</u>	
Operating Activities			
Receipts from customers and users	\$ 2,402,733	\$ -	\$ 2,402,733
Payments for contractual services and utilities	(446,666)	-	(446,666)
Payments to employees	(163,152)	-	(163,152)
Payments to suppliers	(85,899)	-	(85,899)
Net cash provided by (used in) operating activities	<u>1,707,016</u>	<u>-</u>	<u>1,707,016</u>
Non-capital Financial Activities			
Cash received from other governments	-	-	-
Cash received from (paid to) other funds	(350,281)	-	(350,281)
Net cash provided by (used in) noncapital financing activities	<u>(350,281)</u>	<u>-</u>	<u>(350,281)</u>
Capital and Related Financing Activities			
Principal paid on long-term debt	(90,000)	-	(90,000)
Interest paid on long-term debt	(247,811)	-	(247,811)
Net cash provided by (used in) capital and related financing activities	<u>(337,811)</u>	<u>-</u>	<u>(337,811)</u>
Investing Activities			
Interest received	8,439	-	8,439
Net cash provided by (used in) investing activities	<u>8,439</u>	<u>-</u>	<u>8,439</u>
Net Increase (Decrease) in Cash	1,027,363	-	1,027,363
Cash			
Beginning of year	5,109,337	-	5,109,337
End of year	<u>\$ 6,136,700</u>	<u>\$ -</u>	<u>\$ 6,136,700</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 1,565,470	\$ -	\$ 1,565,470
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	174,516	-	174,516
(Increase) Decrease in Accounts Receivable	(25,707)	-	(25,707)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(7,263)	-	(7,263)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,707,016</u>	<u>\$ -</u>	<u>\$ 1,707,016</u>
Noncash Investing, Capital, and Financing Activities			
Amortization of bond issue costs	<u>\$ 12,239</u>	<u>\$ -</u>	<u>\$ 12,239</u>

CITY OF KING CITY

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2013

Assets

Cash and investments	
Cash and investments	\$ 1,730,668
Cash and investments with fiscal agent	1,030,987
Interest Receivable	31
Land held for resale	<u>1,500,250</u>
Total assets	<u>4,261,936</u>

Liabilities

Accounts payable and accrued liabilities	1,318
Interest payable	226,063
Long-term debt	
Due within one year	220,000
Due in more than one year	<u>10,085,284</u>
Total liabilities	<u>10,532,665</u>

Net Position

Held in trust for other governments	<u>\$ (6,270,729)</u>
-------------------------------------	-----------------------

CITY OF KING CITY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2013

Additions

Property taxes	\$ 1,131,486
Investment earnings and other	27,443
Total additions	<u>1,158,929</u>

Deductions

Administrative costs	144,610
Program expenses of former redevelopment agency	229,226
Interest and fiscal agency expenses of former redevelopment agency	659,243
Total deductions	<u>1,033,079</u>

Change In Net Position 125,850

Net Position

Beginning of year	(6,028,927)
Prior period adjustment	<u>(367,652)</u>
End of year	<u>\$ (6,270,729)</u>

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation – Fund Accounting

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

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

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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

The City reports the following major proprietary 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, 2013

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.

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

Financial Statement Amounts

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

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

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

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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, 2013, 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 Position because they are maintained in separate bank accounts and their use is limited by debt covenants.

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

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

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations - In the Government-Wide Financial Statements, and Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Position. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Position. Bond premiums and discounts, 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 Position.

Pension Plan - All full-time City employees are members of the State of California Public Employees' Retirement System. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1 by the System's actuary. See note 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, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New GASB Pronouncements - The District adopted new accounting standards in order to conform with the following Governmental Accounting Standards Board Statements (GASB):

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the authoritative pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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, 2013

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, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 7,674,867
Restricted Cash and Investments	340,065
Fiduciary Funds:	
Cash and Investments	1,730,668
Cash and Investments with fiscal agent	1,030,987
Total Cash and Investments	<u>\$ 10,776,587</u>

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 972
Deposits with Financial Institutions	2,079,203
Local Agency Investment Fund	5,137,354
Certificates of Deposit	991,163
Money Market Mutual Funds	1,196,843
Held by Fiscal Agent:	
Money Market Mutual Funds	1,030,987
Government Investment Contracts	340,065
Total Cash and Investments	<u>\$ 10,776,587</u>

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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, 2013

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, 2013

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, 2013 the City had the following investments.

Investment Type	12 Months or less	13 to 24 Months	25 to 84 Months	Total
LAIF	\$ 5,137,354	\$ -	\$ -	\$ 5,137,354
Certificates of Deposit	991,163	-	-	991,163
Money Market Mutual Funds	2,227,830	-	-	2,227,830
Government Investment Contract	-	-	340,065	340,065
Total Investments	\$ 8,356,347	\$ -	\$ 340,065	8,696,412
Cash in bank and on hand				2,080,175
Total Cash and Investments				\$ 10,776,587

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	\$ -	\$ -	\$ 991,163	\$ 991,163
Money Market Mutual Funds	2,227,830	-	-	2,227,830
Total Investments	\$ 2,227,830	\$ -	\$ 991,163	3,218,993
Not rated:				
LAIF				5,137,354
Government Investment Contract				340,065
Cash in bank and on hand				2,080,175
Total Cash and Investments				\$ 10,776,587

Concentration of Credit Risk

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

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

GASB Statement No. 40 requires that the following disclosures be made with respect to custodial credit risks relating to deposits and investments: The City did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts. As of June 30, 2013, 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	\$ 1,030,987
Government Investment Contracts	340,065

Investment in State Investment Pool

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

CITY OF KING CITY

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

Note 4 – Interfund Receivables, Payables and Transfers

Interfund Receivables and Payables

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

Individual fund interfund receivables and payables balances as of June 30, 2013 are as follows:

	<u>Due From</u>	<u>Due To</u>
Sewer Fund	\$ 3,775,025	\$ -
General Fund	-	3,715,783
HOME Grant Fund	-	22,895
Airport Operations Fund	-	34,493
Capital Projects Fund	-	1,854
	<u>\$ 3,775,025</u>	<u>\$ 3,775,025</u>

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

Transfers

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ -	\$ 388,427
Gas Tax Fund	-	3,135
Enterprise Funds:		
Sewer Fund	-	350,000
Transit Fund	158,824	-
Nonmajor Governmental Funds:		
Airport Operations Fund	-	15,000
Landfill Closure Fund	847,309	-
Traffic Safety Fund	-	1,800
UUT-Public Safety Fund	-	231,758
Capital Projects Fund	-	16,013
	<u>\$ 1,006,133</u>	<u>\$ 1,006,133</u>

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 5 – Capital Assets

Capital asset activities for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 213,539	\$ -	\$ -	\$ 213,539
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>213,539</u>	<u>-</u>	<u>-</u>	<u>213,539</u>
Capital assets, being depreciated				
Buildings and improvements	8,581,044	-	-	8,581,044
Infrastructure	13,561,188	-	-	13,561,188
Machinery and equipment	2,902,123	-	-	2,902,123
Total capital assets, being depreciated	<u>25,044,355</u>	<u>-</u>	<u>-</u>	<u>25,044,355</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,108,225)	(228,157)	-	(5,336,382)
Infrastructure	(2,559,731)	(599,998)	-	(3,159,729)
Machinery and equipment	(2,315,886)	(113,229)	-	(2,429,115)
Total accumulated depreciation	<u>(9,983,842)</u>	<u>(941,384)</u>	<u>-</u>	<u>(10,925,226)</u>
Total capital assets, being depreciated, net	<u>15,060,513</u>	<u>(941,384)</u>	<u>-</u>	<u>14,119,129</u>
Governmental activities capital assets, net	<u>\$ 15,274,052</u>	<u>\$ (941,384)</u>	<u>\$ -</u>	<u>\$ 14,332,668</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	-	(93,452)	1,183,279
Total capital assets, being depreciated	<u>7,443,436</u>	<u>-</u>	<u>(93,452)</u>	<u>7,349,984</u>
Less: accumulated depreciation	<u>(4,954,319)</u>	<u>(174,516)</u>	<u>88,190</u>	<u>(5,040,645)</u>
Total capital assets, being depreciated, net	<u>2,489,117</u>	<u>(174,516)</u>	<u>(5,262)</u>	<u>2,309,339</u>
Business-type activities capital assets, net	<u>\$ 3,253,210</u>	<u>\$ (174,516)</u>	<u>\$ (5,262)</u>	<u>\$ 3,073,432</u>

CITY OF KING CITY

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$ 39,982
Public Safety	168,301
Public Works	537,315
Culture and Recreation	194,026
Community Development	1,760
	<u>\$ 941,384</u>

Business-Type Functions:

Sewer	<u>\$ 174,516</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 July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
<u>Government-Type Activity Long Term Debt</u>					
Pension related debt	\$ 891,680	\$ -	\$ (107,749)	\$ 783,931	\$ 121,848
Vehicle capital lease	49,802	-	(24,164)	25,638	25,638
Total Government-Type Activity Debt	<u>\$ 941,482</u>	<u>\$ -</u>	<u>\$ (131,913)</u>	<u>\$ 809,569</u>	<u>\$ 147,486</u>
<u>Business-Type Activity Long Term Debt</u>					
2009 Refunding Certificates of Participation	\$ 4,820,000	\$ -	\$ (90,000)	\$ 4,730,000	\$ 90,000
Total Business-Type Activity Debt	<u>\$ 4,820,000</u>	<u>\$ -</u>	<u>\$ (90,000)</u>	<u>\$ 4,730,000</u>	<u>\$ 90,000</u>
<u>Compensated Absences</u>					
Government Activities	<u>\$ 469,310</u>	<u>\$ 21,680</u>	<u>\$ -</u>	<u>\$ 490,990</u>	

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

Note 6 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2013 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, 2013 was \$25,638.

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 2012-13 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, 2013**

Note 6 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2013 was:

Years ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	103,960	22,317	105,000	231,111
2019-2023	245,963	19,036	600,000	1,081,687
2024-2028	-	-	755,000	911,575
2029-2033	-	-	980,000	677,430
2034-2038	-	-	1,285,000	362,460
2039-2040	-	-	625,000	35,420
	<u>\$ 809,569</u>	<u>\$ 206,376</u>	<u>\$ 4,730,000</u>	<u>\$ 4,259,545</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, 2013 the outstanding balance on both COPS Series was \$9,861,671.

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, 2013:

Governmental Funds	
General	\$(3,780,906)
Airport	<u>(18,437)</u>
	<u>\$(3,799,343)</u>

These deficits are 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, 2013

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, 2013, the City's annual pension cost of \$451,811 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, 2011	\$ 505,216	100%	-
June 30, 2012	\$ 405,108	100%	-
June 30, 2013	\$ 451,811	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, 2013, plan members and the City contributed \$39,649 and \$6,235, respectively.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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 January 22, 2014, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

CITY OF KING CITY

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

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 position as of June 30, 2013. It should be noted that the MBASIA accrued approximately \$10 million in long-term liabilities for claim and claim adjustment reserves in previous years which contributed to the negative net position. The effect this may have on the City is currently unknown. The City contributes approximately 3% of the MBASIA's revenue for the workers' compensation program.

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

Note 12 - Prior Period Adjustments

During the current year, it was determined that in the prior year an accounts payable was not recorded for public safety dispatch services. To correct this error, beginning fund balance in the General Fund was decreased by \$184,002. The beginning net position of governmental activities in the government-wide financial statements was also decreased by the same amount.

In the Private Purpose Trust Fund - Successor Agency statement, the Agency accrued interest related to notes payable and judgments owed by the Successor Agency. The beginning net position held in trust of \$(6,028,927), as originally reported, was restated to \$(6,396,579) to include the accrued interest of \$367,652 at June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 2,452,120	\$ 2,452,120	\$ 2,818,303	\$ 366,183
Intergovernmental	950,923	950,923	802,908	(148,015)
Charges for services	208,505	208,505	308,526	100,021
Licenses and permits	43,075	43,075	78,136	35,061
Fines and forfeitures	95,000	95,000	100,370	5,370
Interest and rents	18,000	18,000	28,938	10,938
Other	266,373	266,373	54,511	(211,862)
Total revenue	<u>4,033,996</u>	<u>4,033,996</u>	<u>4,191,692</u>	<u>157,696</u>
Expenditures				
Current				
General government	941,557	941,557	681,781	259,776
Public safety	2,683,195	2,683,195	2,820,364	(137,169)
Public works	355,400	355,400	322,789	32,611
Culture and recreation	156,100	156,100	147,936	8,164
Community development	538,028	538,028	608,732	(70,704)
Total expenditures	<u>4,674,280</u>	<u>4,674,280</u>	<u>4,581,602</u>	<u>92,678</u>
Revenue over (under) expenditures	(640,284)	(640,284)	(389,910)	250,374
Other Financing Sources				
Transfers in (out), net	<u>(160,309)</u>	<u>(160,309)</u>	<u>(388,427)</u>	<u>(228,118)</u>
Net Change in Fund Balance	<u>\$ (800,593)</u>	<u>\$ (800,593)</u>	<u>(778,337)</u>	<u>\$ 22,256</u>
Fund Balance				
Beginning of year			(2,818,567)	
Prior period adjustment			<u>(184,002)</u>	
End of year			<u>\$ (3,780,906)</u>	

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE

GAS TAX FUND

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 220,000	\$ 220,000	\$ 285,905	\$ 65,905
Interest	-	-	-	-
Total revenue	<u>220,000</u>	<u>220,000</u>	<u>285,905</u>	<u>65,905</u>
Expenditures				
Current				
Public works	394,200	394,200	408,491	(14,291)
Total expenditures	<u>394,200</u>	<u>394,200</u>	<u>408,491</u>	<u>(14,291)</u>
Revenue over (under) expenditures	(174,200)	(174,200)	(122,586)	51,614
Other Financing Sources				
Transfers in (out), net	-	-	(3,135)	(3,135)
Net Change in Fund Balance	<u>\$ (174,200)</u>	<u>\$ (174,200)</u>	(125,721)	<u>\$ 48,479</u>
Fund Balance				
Beginning of year			<u>446,259</u>	
End of year			<u>\$ 320,538</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Licenses, permits and impact fees	\$ -	\$ -	\$ 1,037,436	\$ 1,037,436
Total revenue	<u>-</u>	<u>-</u>	<u>1,037,436</u>	<u>1,037,436</u>
Expenditures				
Current				
Community development	<u>6,000</u>	<u>6,000</u>	<u>9,569</u>	<u>(3,569)</u>
Total expenditures	<u>6,000</u>	<u>6,000</u>	<u>9,569</u>	<u>(3,569)</u>
Revenue over/(under) expenditures	<u>\$ (6,000)</u>	<u>\$ (6,000)</u>	1,027,867	<u>\$ 1,033,867</u>
Fund Balance				
Beginning of year			<u>(83,292)</u>	
End of year			<u>\$ 944,575</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF KING CITY

COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS JUNE 30, 2013

	Special Revenue Funds							
	SLESF/COPS Grant	HOME Grant	Traffic		Asset Seizure	Riverview		Airport Operations
			Congestion Relief	Relief		Gardens Landscape	Gardens Landscape	
ASSETS								
Cash and investments	\$ 157,312	\$ -	\$ 211,569	\$ 16,053	\$ 45,975	\$ -	\$ -	\$ 20,168
Accounts receivable	25,000	31,160	-	-	-	-	-	-
Due from other governments	182,312	31,160	211,569	16,053	45,975	-	-	20,168
Total assets	\$ 364,624	\$ 63,320	\$ 423,138	\$ 32,106	\$ 91,950	\$ -	\$ -	\$ 40,328
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	\$ 33,318	\$ 8,265	\$ -	\$ -	\$ 20	\$ 4,112	\$ -	\$ -
Due to other funds	-	22,895	-	-	-	34,493	-	-
Total liabilities	\$ 33,318	\$ 31,160	\$ -	\$ -	\$ 20	\$ 38,605	\$ -	\$ -
Fund Balance								
Restricted								
Circulation improvements	-	-	211,569	-	-	-	-	-
Capital improvement projects	-	-	-	-	-	-	-	-
Public safety	148,994	-	-	16,053	-	-	-	-
Landscape maintenance	-	-	-	-	45,955	-	-	-
Unassigned	-	-	-	-	-	(18,437)	-	-
Total fund balance	\$ 148,994	\$ -	\$ 211,569	\$ 16,053	\$ 45,955	\$ (18,437)	\$ -	\$ -
Total liabilities and fund balance	\$ 182,312	\$ 31,160	\$ 211,569	\$ 16,053	\$ 45,975	\$ 20,168	\$ -	\$ -

CITY OF KING CITY

COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS JUNE 30, 2013

	Special Revenue Funds				Capital Projects Fund		Total Non-major Governmental Funds
	Landfill Closure	Traffic Safety	CDBG Grant	UUT-Public Safety	Capital Projects	Capital Projects	
ASSETS							
Cash and investments	\$ -	\$ 43,421	\$ 103,517	\$ 1,901	\$ -	\$ -	\$ 579,748
Accounts receivable	-	139	-	21,365	-	-	41,672
Due from other governments	-	-	-	-	1,854	-	58,014
Total assets	\$ -	\$ 43,560	\$ 103,517	\$ 23,266	\$ 1,854	\$ 1,854	\$ 679,434
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	\$ -	\$ -	\$ 9	\$ -	\$ -	\$ -	\$ 45,724
Due to other funds	-	-	-	-	1,854	-	59,242
Total liabilities	-	-	9	-	1,854	-	104,966
Fund Balance							
Restricted							
Circulation improvements	-	43,560	-	-	-	-	255,129
Capital improvement projects	-	-	103,508	-	-	-	103,508
Public safety	-	-	-	23,266	-	-	188,313
Landscape maintenance	-	-	-	-	-	-	45,955
Unassigned	-	-	-	-	-	-	(18,437)
Total fund balance	-	43,560	103,508	23,266	-	-	574,468
Total liabilities and fund balance	\$ -	\$ 43,560	\$ 103,517	\$ 23,266	\$ 1,854	\$ 1,854	\$ 679,434

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds					
	SLESF/COPS Grant	HOME Grant	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations
Revenue						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	100,000	31,160	-	-	-	10,000
Charges for services	-	-	-	-	-	1,674
Fines and forfeitures	-	-	-	1,682	-	-
Interest and rent	-	-	-	-	-	105,447
Total revenue	<u>100,000</u>	<u>31,160</u>	<u>-</u>	<u>1,682</u>	<u>-</u>	<u>117,121</u>
Expenditures						
Public safety	44,908	-	-	-	-	-
Public works	-	-	-	-	122	77,869
Community development	-	31,160	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Principal	24,164	-	-	-	-	-
Interest	3,038	-	-	-	-	-
Total expenditures	<u>72,110</u>	<u>31,160</u>	<u>-</u>	<u>-</u>	<u>122</u>	<u>77,869</u>
Revenue over (under) expenditures	27,890	-	-	1,682	(122)	39,252
Other financing sources/(uses)						
Transfers in/(out), net	-	-	-	-	-	(15,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Change in Fund Balance	27,890	-	-	1,682	(122)	24,252
Fund Balance						
Beginning of year	121,104	-	211,569	14,371	46,077	(42,689)
End of year	<u>\$ 148,994</u>	<u>\$ -</u>	<u>\$ 211,569</u>	<u>\$ 16,053</u>	<u>\$ 45,955</u>	<u>\$ (18,437)</u>

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds				Capital Projects Fund		Total Non-major Governmental Funds
	Landfill Closure	Traffic Safety	CDBG Grant	UUT-Public Safety	Capital Projects	Capital Projects	
Revenue							
Taxes	\$ -	\$ -	\$ -	\$ 231,758	\$ -	\$ -	\$ 231,758
Intergovernmental	-	-	36,270	-	118,037	-	295,467
Charges for services	-	-	-	-	-	-	1,674
Fines and forfeitures	-	1,800	-	-	-	-	3,482
Interest and rent	-	-	-	-	-	-	105,447
Total revenue	1,800	1,800	36,270	231,758	118,037	118,037	637,828
Expenditures							
Public safety	-	-	-	-	-	-	44,908
Public works	-	-	-	-	-	-	77,991
Community development	-	-	89,958	-	102,024	-	223,142
Capital outlay	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	24,164
Principal	-	-	-	-	-	-	3,038
Interest	-	-	89,958	-	102,024	-	373,243
Total expenditures	-	-	89,958	-	102,024	102,024	373,243
Revenue over (under) expenditures	-	1,800	(53,688)	231,758	16,013	16,013	264,585
Other financing sources/(uses)							
Transfers in/(out), net	847,309	(1,800)	-	(231,758)	(16,013)	(16,013)	582,738
Total other financing sources (uses)	847,309	(1,800)	-	(231,758)	(16,013)	(16,013)	582,738
Change in Fund Balance	847,309	-	(53,688)	-	-	-	847,323
Fund Balance							
Beginning of year	(847,309)	43,560	157,196	23,266	-	-	(272,855)
End of year	\$ -	\$ 43,560	\$ 103,508	\$ 23,266	\$ -	\$ -	\$ 574,468

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated January 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

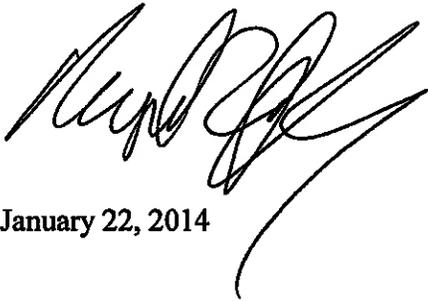
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the the deficiencies described in items 2012-01 through 2012-02 in the accompany schedule of findings to be material weaknesses.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to be 'K. J. ...', written over a horizontal line.

January 22, 2014

CITY OF KING CITY

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2013

CURRENT YEAR FINDINGS:

None

STATUS OF PRIOR YEAR FINDINGS:

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.

Status of Prior Year Finding:

Uncorrected

CITY OF KING CITY

SCHEDULE OF FINDINGS (CONTINUED) YEAR ENDED JUNE 30, 2013

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.

Status of Prior Year Finding:

Uncorrected