

CITY OF KING CITY

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

JUNE 30, 2015

CONTENTS

	<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 Basic Financial Statements	14 - 38

C O N T E N T S (Continued)

	<u>Page</u>
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	39
Budgetary Comparison Schedule – Gas Tax Fund	40
Budgetary Comparison Schedule – HOME Grant Fund	41
Budgetary Comparison Schedule – Development Impact Fees Fund	42
Schedule of the City’s Proportionate Share of Net Pension Liability	43
Schedule of Contributions	44
Supplemental Only Information	
Combining Balance Sheet - Nonmajor Governmental Funds	45 – 46
Combining Statement of Revenue, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	47 – 48
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>	49 – 50
SCHEDULE OF FINDINGS	51

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, 2015, 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 13, the City has not estimated and reported a liability for landfill post-closure care costs or included the related note disclosures as required by accounting principles generally accepted in the United States of America.

In our opinion, except as noted in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, as of June 30, 2015, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39 through 42 and the Schedule of the City's Proportionate Share of Net Pension Liability and the Schedule of Contributions pages 43 and 44 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

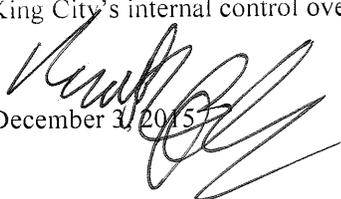
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 December 3, 2015, on our consideration of the City of King City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of King City's internal control over financial reporting and compliance.

December 3, 2015



CITY OF KING CITY

STATEMENT OF NET POSITION JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 1,812,791	\$ 6,805,876	\$ 8,618,667
Restricted cash and investments	-	340,133	340,133
Accounts receivable	178,967	188,045	367,012
Due from other governments	429,848	-	429,848
Interest receivable	599	3,286	3,885
Notes receivable	3,096,886	-	3,096,886
Internal balances	(4,775,528)	4,775,528	-
Deferred charges	-	88,936	88,936
Capital assets (net of allowance for depreciation)	<u>12,967,755</u>	<u>2,881,500</u>	<u>15,849,255</u>
Total assets	<u>13,711,318</u>	<u>15,083,304</u>	<u>28,794,622</u>
DEFERRED OUTFLOW OF RESOURCES	<u>382,554</u>	<u>23,049</u>	<u>405,603</u>
LIABILITIES			
Accounts payable and accrued expense	1,034,551	30,071	1,064,622
Accrued interest	-	80,047	80,047
Deposits	66,685	-	66,685
Compensated absences	355,818	-	355,818
Noncurrent liabilities			
Due within one year	-	95,000	95,000
Due in more than one year	-	4,450,000	4,450,000
Net pension liability	<u>3,775,992</u>	<u>240,024</u>	<u>4,016,016</u>
Total liabilities	<u>5,233,046</u>	<u>4,895,142</u>	<u>10,128,188</u>
DEFERRED INFLOW OF RESOURCES	<u>1,005,687</u>	<u>57,054</u>	<u>1,062,741</u>
NET POSITION			
Net investment in capital assets	12,967,755	(1,663,500)	11,304,255
Restricted for debt service	-	340,133	340,133
Restricted for capital projects	1,422,806	-	1,422,806
Restricted for long-term notes receivable	3,096,886	-	3,096,886
Restricted for specific projects and programs	270,902	-	270,902
Unrestricted (deficit)	<u>(9,903,210)</u>	<u>11,477,524</u>	<u>1,574,314</u>
Total net position	<u>\$ 7,855,139</u>	<u>\$ 10,154,157</u>	<u>\$ 18,009,296</u>

CITY OF KING CITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Functions/Programs	Net Revenue/(Expense) and Changes in Net Position						
	Program Revenue			Primary Government			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 1,094,009	\$ 5,588	\$ 190,423	\$ -	\$ (897,998)	\$ -	\$ (897,998)
Public safety	3,622,234	179,135	129,079	-	(3,314,020)	-	(3,314,020)
Public works	1,999,963	-	322,541	-	(1,677,422)	-	(1,677,422)
Culture and recreation	594,521	147,103	-	-	(447,418)	-	(447,418)
Community development	1,031,679	123,280	443,773	367,006	(97,620)	-	(97,620)
Total governmental activities	8,342,406	455,106	1,085,816	367,006	(6,434,478)	-	(6,434,478)
Business-type activities							
Sewer	1,042,134	2,498,906	-	-	-	1,456,772	1,456,772
Total business-type activities	1,042,134	2,498,906	-	-	-	1,456,772	1,456,772
Total primary government	\$ 9,384,540	\$ 2,954,012	\$ 1,085,816	\$ 367,006	(6,434,478)	1,456,772	(4,977,706)
General Revenue							
Property taxes					751,877	-	751,877
Franchise taxes					336,803	-	336,803
Sales taxes					1,523,405	-	1,523,405
Transient occupancy taxes					351,097	-	351,097
Utility users tax					252,807	-	252,807
Business licenses					86,378	-	86,378
Motor vehicle in-lieu					795,644	-	795,644
Investment income					257,370	8,967	266,337
Other revenues					65,172	-	65,172
Transfers					350,000	(350,000)	-
Total general revenue and transfers					4,770,553	(341,033)	4,429,520
Change in Net Position					(1,663,925)	1,115,739	(548,186)
Net Position							
Beginning of year, as previously reported					13,050,901	9,314,236	22,365,137
Prior period adjustment					199,873	-	199,873
Cumulative effect of change in accounting principle					(3,731,710)	(275,818)	(4,007,528)
End of year					7,855,139	10,154,157	18,009,296

See accompanying notes.

CITY OF KING CITY

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2015

	General	Gas Tax	HOME Grant	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ -	\$ 162,287	\$ -	\$ 1,059,779	\$ 590,725	\$ 1,812,791
Accounts receivable	3,170	-	-	-	175,797	178,967
Due from other governments	385,941	-	26,000	-	17,907	429,848
Interest receivable	10	49	-	362	178	599
Notes receivable	96,886	-	3,000,000	-	-	3,096,886
Total assets	\$ 486,007	\$ 162,336	\$ 3,026,000	\$ 1,060,141	\$ 784,607	\$ 5,519,091
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE						
Accounts payable and accrued expense	\$ 588,238	\$ 409,661	\$ 25,000	\$ 239	\$ 11,413	\$ 1,034,551
Deposits	66,685	-	-	-	-	66,685
Due to other funds	4,578,435	-	1,000	-	196,093	4,775,528
Total liabilities	5,233,358	409,661	26,000	239	207,506	5,876,764
Deferred inflows of resources						
Unavailable revenues	-	-	3,000,000	-	-	3,000,000
Total deferred inflows of resources	-	-	3,000,000	-	-	3,000,000
FUND BALANCE						
Nonspendable						
Notes receivable	96,886	-	-	-	-	96,886
Restricted						
Circulation improvements	-	-	-	-	256,343	256,343
Capital improvement projects	-	-	-	1,059,902	106,561	1,166,463
Public safety	-	-	-	-	225,168	225,168
Landscape maintenance	-	-	-	-	45,734	45,734
Unassigned	(4,844,237)	(247,325)	-	-	(56,705)	(5,148,267)
Total fund balance	(4,747,351)	(247,325)	-	1,059,902	577,101	(3,357,673)
Total liabilities, deferred inflows of resources, and fund balance	\$ 486,007	\$ 162,336	\$ 3,026,000	\$ 1,060,141	\$ 784,607	\$ 5,519,091

CITY OF KING CITY

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

JUNE 30, 2015

Total governmental fund balances	\$ (3,357,673)
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 governmental funds	12,967,755
Certain revenues in Governmental Funds are deferred because they are not collected within the prescribed time period after fiscal year end. Those revenues are recognized on the accrual basis in Governmental Activities	3,000,000
Net pension liability applicable to governmental activities are not due and payable in the current period and accordingly is not reportable in the governmental funds	(3,775,992)
Deferred inflows/outflows of resources related to net pension liability, represent an acquisition/consumption of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow/outflow of resources (revenue/expenditure) until that time	(623,133)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds	<u>(355,818)</u>
Net position of governmental activities	<u>\$ 7,855,139</u>

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	General	Gas Tax	HOME Grant	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
Revenue						
Taxes	\$ 3,051,123	\$ -	\$ -	\$ -	\$ 252,807	\$ 3,303,930
Intergovernmental	1,023,479	322,541	273,430	-	93,151	1,712,601
Charges for services	359,811	-	-	-	1,841	361,652
Licenses, permits and impact fees	167,296	-	-	367,006	-	534,302
Fines and forfeitures	92,396	-	-	-	1,058	93,454
Interest and rent	29,553	49	-	361	227,407	257,370
Other	65,172	-	-	-	-	65,172
Total revenue	4,788,830	322,590	273,430	367,367	576,264	6,328,481
Expenditures						
Current						
General government	1,224,283	-	-	-	-	1,224,283
Public safety	3,358,976	-	-	-	86,045	3,445,021
Public works	322,234	886,653	-	-	271,313	1,480,200
Culture and recreation	402,675	-	-	-	-	402,675
Community development	993,297	-	313,015	28,136	5	1,334,453
Capital outlay	-	-	-	273,070	-	273,070
Debt Service	-	-	-	-	-	-
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	6,301,465	886,653	313,015	301,206	357,363	8,159,702
Revenue over/(under) expenditures	(1,512,635)	(564,063)	(39,585)	66,161	218,901	(1,831,221)
Other Financing Sources/(Uses)						
Transfers in/(out) - net	563,562	-	39,585	-	(253,147)	350,000
Change in Fund Balance	(949,073)	(564,063)	-	66,161	(34,246)	(1,481,221)
Fund Balance						
Beginning of year	(3,798,278)	316,738	-	993,741	611,347	(1,876,452)
End of year	(4,747,351)	(247,325)	-	1,059,902	577,101	(3,357,673)

See accompanying notes.

CITY OF KING CITY

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2015

Net change in fund balance - total governmental funds \$ (1,481,221)

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

Governmental Funds report issuance of loans as expenditures. However, in the Statement of Activities these loans are subject to capitalization on the Statement of Net Position 300,000

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are capitalized as an asset and depreciated over the period of service 273,070

Pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds (8,592)

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 159,992

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 (907,174)

Change in net position of governmental activities \$ (1,663,925)

CITY OF KING CITY

STATEMENT OF NET POSITION – PROPRIETARY FUND JUNE 30, 2015

	Business-Type Activities - Enterprise Fund
	Sewer
ASSETS	
Current assets	
Cash and investments	\$ 6,805,876
Restricted cash and investments	340,133
Accounts receivable	188,045
Due from other funds	4,775,528
Interest receivable	3,286
Total current assets	<u>12,112,868</u>
Non-current assets	
Deferred charges	88,936
Property, plant and equipment (net of allowance for depreciation)	<u>2,881,500</u>
Total noncurrent assets	<u>2,970,436</u>
Total assets	<u>15,083,304</u>
DEFERRED OUTFLOW OF RESOURCES	<u>23,049</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expense	30,071
Accrued interest	80,047
Current portion of long-term debt	95,000
Total current liabilities	<u>205,118</u>
Noncurrent Liabilities	
Long-term debt	4,450,000
Net pension liability	<u>240,024</u>
Total liabilities	<u>4,895,142</u>
DEFERRED INFLOW OF RESOURCES	<u>57,054</u>
NET POSITION	
Net investment in capital assets	(1,663,500)
Restricted for debt service	340,133
Unrestricted	<u>11,477,524</u>
Total net position	<u>\$ 10,154,157</u>

See accompanying notes.

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2015**

	Business-Type Activities - Enterprise Fund
	Sewer
Operating Revenue	
Charges for services	\$ 2,446,356
Rents and concessions	52,550
Total operating revenue	<u>2,498,906</u>
Operating Expense	
Contractual services and utilities	312,119
Personnel	183,716
Supplies and materials	133,450
Depreciation	168,652
Total operating expense	<u>797,937</u>
Operating income/(loss)	<u>1,700,969</u>
Nonoperating Revenue/(Expense)	
Interest income	8,967
Interest expense	(240,632)
Amortization expense	(3,565)
Total nonoperating revenue/(expense)	<u>(235,230)</u>
Net income/(loss) before transfers	1,465,739
Operating Transfers In/(Out)	<u>(350,000)</u>
Change in Net Position	<u>1,115,739</u>
Net Position	
Beginning of year	9,314,236
Cumulative effect of change in accounting principle	(275,818)
End of year	<u>\$ 10,154,157</u>

CITY OF KING CITY

STATEMENT OF CASH FLOW - PROPRIETARY FUND YEAR ENDED JUNE 30, 2015

	Business-Type Activities - Enterprise Fund
	Sewer
Operating Activities	
Receipts from customers and users	\$ 2,492,368
Payments for contractual services and utilities	(298,536)
Payments to employees	(185,505)
Payments to suppliers	(133,450)
Net cash provided by (used in) operating activities	<u>1,874,877</u>
Non-capital Financial Activities	
Cash received from (paid to) other funds	(1,400,176)
Net cash provided by (used in) noncapital financing activities	<u>(1,400,176)</u>
Capital and Related Financing Activities	
Principal paid on long-term debt	(95,000)
Interest paid on long-term debt	(241,614)
Net cash provided by (used in) capital and related financing activities	<u>(336,614)</u>
Investing Activities	
Interest received	5,726
Net cash provided by (used in) investing activities	<u>5,726</u>
Net Increase in Cash	143,813
Cash	
Beginning of year	7,002,196
End of year	<u>\$ 7,146,009</u>
Cash Flows from Operating Activities	
Operating income (loss)	\$ 1,700,969
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	168,652
(Increase) Decrease in Deferred Outflow of Resources	(23,049)
(Increase) Decrease in Accounts Receivable	(6,538)
Increase (Decrease) in Deferred Inflows of Resources	57,054
Increase (Decrease) in Net Pension Liability	(35,794)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	<u>13,583</u>
Net Cash Provided by Operating Activities	<u>\$ 1,874,877</u>
Noncash Investing, Capital, and Financing Activities	
Amortization of bond discount	<u>\$ 3,565</u>

See accompanying notes.

CITY OF KING CITY

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2015

Assets

Cash and investments	
Cash and investments	\$ 732,260
Cash and investments with fiscal agent	1,071,071
Accounts Receivable	30
Land held for resale	<u>1,500,250</u>
Total assets	<u>3,303,611</u>

Liabilities

Accounts payable and accrued liabilities	1,344
Interest payable	214,975
Long-term debt	
Due within one year	255,000
Due in more than one year	<u>8,591,110</u>
Total liabilities	<u>9,062,429</u>

Net Position

Held in trust for other governments	<u>\$ (5,758,818)</u>
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CITY OF KING CITY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2015

Additions

Property taxes	\$ 1,332,375
Investment earnings and other	24,877
Total additions	<u>1,357,252</u>

Deductions

Administrative costs	103,269
Program expenses of former redevelopment agency	563,094
Interest and fiscal agency expenses of former redevelopment agency	597,431
Total deductions	<u>1,263,794</u>

Change In Net Position

93,458

Net Position

Beginning of year	<u>(5,852,276)</u>
End of year	<u>\$ (5,758,818)</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation – Fund Accounting

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

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

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary fund:

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

The City reports the following additional fund types:

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

Basis of Accounting

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

Financial Statement Amounts

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

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

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

Accounts Receivable - Billed but unpaid services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through June 30, 2015, which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Pension – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employee Retirement System (CalPERS) plan and additions to/deduction from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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 FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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.

New GASB Pronouncements Not Yet Adopted

Government Accounting Standards Board Statement No. 72 - In February 2015, GASB issued Statement No. 69, Fair Value Measurement and Application. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relevant literature. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2016.

New Effective Accounting Pronouncements

For the year ended June 30, 2015, the City implemented GASB Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71 (GASB 71) Pensions Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68, with required implementation for the City during the year ended June 30, 2015. The primary objectives of GASB 68 and GASB 71 are to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. They require employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note 14 explains the effect of the current year GASB implementation.

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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 2 – Stewardship, Compliance and Accountability (Continued)

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.

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, 2015 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	\$ 8,618,667
Restricted Cash and Investments	340,133
Fiduciary Funds:	
Cash and Investments	732,260
Cash and Investments with fiscal agent	1,071,071
Total Cash and Investments	<u>\$ 10,762,131</u>

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 972
Deposits with Financial Institutions	1,944,862
Local Agency Investment Fund	5,873,358
Certificates of Deposit	1,006,728
Money Market Mutual Funds	525,007
Held by Fiscal Agent:	
Money Market Mutual Funds	1,071,071
Government Investment Contracts	340,133
Total Cash and Investments	<u>\$ 10,762,131</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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%

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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 3 – Cash and Investments (Continued)

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

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, 2015 the City had the following investments.

Investment Type	12 Months or less	13 to 24 Months	25 to 84 Months	Total
LAIF	\$ 5,873,358	\$ -	\$ -	\$ 5,873,358
Certificates of Deposit	1,006,728	-	-	1,006,728
Money Market Mutual Funds	1,596,078	-	-	1,596,078
Government Investment Contract	-	-	340,133	340,133
Total Investments	\$ 8,476,164	\$ -	\$ 340,133	8,816,297
Cash in bank and on hand				1,945,834
Total Cash and Investments				\$ 10,762,131

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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 3 – Cash and Investments (Continued)

	Rating as of Year-End			Total
	AAA	A	Ba	
Investments				
Certificates of Deposit	\$ -	\$ -	\$ 1,006,728	\$ 1,006,728
Money Market Mutual Funds	1,596,078	-	-	1,596,078
Total Investments	<u>\$ 1,596,078</u>	<u>\$ -</u>	<u>\$ 1,006,728</u>	2,602,806
Not rated:				
LAIF				5,873,358
Government Investment Contract				340,133
Cash in bank and on hand				1,945,834
Total Cash and Investments				<u>\$ 10,762,131</u>

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 3 – Cash and Investments (Continued)

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, 2015, 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	\$ 1,071,071
Government Investment Contracts	340,133

Investment in State Investment Pool

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

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, 2015 are as follows:

	<u>Due From</u>	<u>Due To</u>
Sewer Fund	\$ 4,775,528	\$ -
General Fund	-	4,578,435
HOME Grant Fund	-	1,000
Airport Operations Fund	-	196,093
	<u>\$ 4,775,528</u>	<u>\$ 4,775,528</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	\$ 563,562	\$ -
Home Grant	39,585	-
Enterprise Funds:		
Sewer Fund	-	(350,000)
Nonmajor Governmental Funds:		
Airport Operations Fund	-	(15,000)
Capital Projects	14,660	-
UUT-Public Safety Fund	-	(252,807)
	<u>\$ 617,807</u>	<u>\$ (617,807)</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 5 – Capital Assets

Capital asset activities for the year ended June 30, 2015 were as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 213,539	\$ -	\$ -	\$ 213,539
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	472,943	-	14,034,131
Machinery and equipment	2,855,702	-	-	2,855,702
Total capital assets, being depreciated	<u>24,997,934</u>	<u>472,943</u>	<u>-</u>	<u>25,470,877</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,563,627)	(226,998)	-	(5,790,625)
Infrastructure	(3,759,727)	(599,998)	-	(4,359,725)
Machinery and equipment	(2,486,133)	(80,178)	-	(2,566,311)
Total accumulated depreciation	<u>(11,809,487)</u>	<u>(907,174)</u>	<u>-</u>	<u>(12,716,661)</u>
Total capital assets, being depreciated, net	<u>13,188,447</u>	<u>(434,231)</u>	<u>-</u>	<u>12,754,216</u>
Governmental activities capital assets, net	<u>\$ 13,401,986</u>	<u>\$ (434,231)</u>	<u>\$ -</u>	<u>\$ 12,967,755</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 764,093	\$ -	\$ -	\$ 764,093
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	6,312,912	-	-	6,312,912
Plant and equipment	1,183,279	-	-	1,183,279
Total capital assets, being depreciated	<u>7,496,191</u>	<u>-</u>	<u>-</u>	<u>7,496,191</u>
Less: accumulated depreciation	<u>(5,210,132)</u>	<u>(168,652)</u>	<u>-</u>	<u>(5,378,784)</u>
Total capital assets, being depreciated, net	<u>2,286,059</u>	<u>(168,652)</u>	<u>-</u>	<u>2,117,407</u>
Business-type activities capital assets, net	<u>\$ 3,050,152</u>	<u>\$ (168,652)</u>	<u>\$ -</u>	<u>\$ 2,881,500</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	35,093
Public Safety		156,828
Public Works		522,570
Culture and Recreation		192,683
	\$	<u>907,174</u>

Business-Type Functions:

Sewer	\$	<u>168,652</u>
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Note 6 – Notes Receivables

Notes receivable and deferred loans consisted of the following at June 30, 2015:

King City Pacific Associates, L.P. - The HOME Investment Partnership Grant program approved \$3,00,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with King City Pacific Associates, L.P. to loan such funds for the construction of the San Antonio Apartments. Funds were provided in the form of a deferred payment loan. If not paid sooner, the unpaid principal balance of this note, plus any unpaid interest thereon shall be due and payable in full fifty-five years from the date of the note. The note bears 3% interest and the face amount of the note at June 30, 2015 was \$3,000,000.

City Manager - The City made a housing loan to the City Manager, in the amount of \$120,000 for the purchase of a home within the City limits. The loan was secured by a deed of trust and had a term of 30 years with an interest rate of 5%. The note balance at June 30, 2015 was \$96,886.

Note 7 – Long-Term Debt

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

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
<u>Government-Type Activity Long Term Debt</u>					
CalPERS Side Fund debt	\$ 658,823	\$ -	\$ (658,823)	\$ -	\$ -
Total Government-Type Activity Debt	<u>\$ 658,823</u>	<u>\$ -</u>	<u>\$ (658,823)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Business-Type Activity Long Term Debt</u>					
2009 Refunding Certificates of Participation	\$ 4,640,000	\$ -	\$ (95,000)	\$ 4,545,000	\$ 95,000
Total Business-Type Activity Debt	<u>\$ 4,640,000</u>	<u>\$ -</u>	<u>\$ (95,000)</u>	<u>\$ 4,545,000</u>	<u>\$ 95,000</u>
<u>Compensated Absences</u>					
Government Activities	\$ 515,810	\$ -	\$ (159,992)	<u>\$ 355,818</u>	

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 7 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2015 was comprised of the following individual issues:

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 2014-15 fiscal year, the Authority was in compliance with these bond covenants.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2015 was:

Years ending June 30,	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 95,000	\$ 238,526
2017	100,000	235,061
2018	105,000	231,111
2019	110,000	226,756
2020	115,000	221,986
2021-2025	655,000	1,021,875
2026-2030	835,000	825,715
2031-2035	1,095,000	562,100
2036-2040	1,435,000	210,140
	<u>\$ 4,545,000</u>	<u>\$ 3,773,270</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 7 – Long-Term Debt (Continued)

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, 2015 the outstanding balance on both COPS Series was \$9,168,949.

Note 8 – Deficit Fund Balances

Fund Balance Deficits - The following is a summary of deficit fund balances as of June 30, 2015:

Governmental Funds	
General	\$(4,744,371)
Airport Operations	(56,705)
Gas Tax	<u>(247,325)</u>
	<u>\$(5,048,401)</u>

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

Note 9 – Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the following deferred outflow of resources related to net pension liability in the Statement of Net Position:

Fiscal year 2014-15 pension contributions subsequent to measurement date	\$ 360,234
Adjustment due to differences in proportions	<u>45,369</u>
Total deferred outflows of resources	<u>\$ 405,603</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 9 – Deferred Outflows and Deferred Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports the following deferred inflows related to net pension in the Statement of Net Position:

Net differences between projected and actual earnings on pension plan investments	\$ 1,020,496
Adjustment due to differences in proportions	<u>42,245</u>
Total deferred inflows of resources	<u>\$ 1,062,741</u>

The City also has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, that item, unavailable revenues, is reported only in the governmental funds balance sheet. The City reports in the HOME Grant fund, \$3,000,000, as unavailable revenues.

Note 10 – City Employees’ Retirement Plan (Defined Benefit 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 – The City pays 7% of annual covered salary for active plan members in the City’s defined pension plan. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2015 was 23.405% for the miscellaneous plan and 25.582% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

CITY OF KING CITY

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
	Prior to <u>January 1, 2013</u>	Prior to <u>January 1, 2013</u>
Hire Date		
Benefit Formula	2.0% at 55; maximum 2% COLA	2.0% at 50; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	55	50
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	7.00%	7.00%
Required Employer Contribution Rates	23.405%	25.582%

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

For the year ended June 30, 2015, the contributions recognized as part of the pension expense is as follows:

Contributions – employer (classic)	\$ 360,234
Contributions – employee (classic)	\$ 114,088

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

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous - Classic	\$2,389,457
Safety - Classic	\$1,626,559

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

The City’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plan is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City’s proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion – June 30, 2013	0.07292%	0.03400%
Proportion – June 30, 2014	<u>0.09668%</u>	<u>0.04336%</u>
Change – Increase/(Decrease)	0.02376%	0.00936%

For the year ended June 30, 2015, the City recognized pension expense of \$403,260. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 360,234	\$ -
Adjustment due to differences in proportions	-	(1,020,496)
Net differences between projected and actual earnings on pension plan investments	<u>45,369</u>	<u>(42,245)</u>
Total	<u>\$ 405,603</u>	<u>\$ (1,062,741)</u>

The \$360,234 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	\$ (254,009)
2017	(254,008)
2018	(254,233)
2019	<u>(255,122)</u>
Total	<u>\$ (1,017,372)</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	06/30/13
Methods and assumptions used to determine contribution rates:	
Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.50% (net of administrative expenses)
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds

¹ 3.30% to 14.20% depending on age, service, and type of employment

² Net of pension plan investment expenses, including inflation

³ The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an

actuarial experience study for fiscal years 1997-2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at CalPERS’ website under Forms and Publications.

Discount rate – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. However, employers may determine the impact at the plan level for their own financial reporting purposes. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected rate of returns, net of inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1-10 ¹	Real Return Years 11+ ²
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 10 – City Employees’ Retirement Plan (Defined Benefit Pension Plan) (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City’s proportionate share of the net pension liability for each Plan, calculating using the discount rate of each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Miscellaneous	\$ 3,803,406	\$ 2,389,457	\$ 1,216,012
Safety	\$ 2,724,091	\$ 1,626,558	\$ 722,240

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

Payable to the Pension Plan

At June 30, 2015, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 11 – 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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 11 – Risk Management (Continued)

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 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through December 3, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2015 that required recognition or disclosure in such financial statements.

Note 13 - Contingencies

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

Workers' Compensation JPA - The City participates in the workers' compensation program for the MBASIA. This program had negative net position as of June 30, 2015. It should be noted that the MBASIA accrued approximately \$10 million in long-term liabilities for claim and claim adjustment reserves in previous years which contributed to the negative net position. The effect this may have on the City is currently unknown. The City contributes approximately 3% of the MBASIA's revenue for the workers' compensation program.

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Note 14 – Cumulative Effect of Change in Accounting Principle

The Sewer Fund has a cumulative effect of change in accounting principles in the amount of \$275,818 due to the implementation of GASB No. 68 to record the opening balance of pension liability. The cumulative effect of change in accounting principles decreased the net position for the Sewer Fund. The Statement of Activities has a cumulative effect of change in accounting principles in the amount of \$3,731,710 to record the opening balance of net pension liability due to GASB No. 68, and the net effect of that adjustment decreased the governmental activities net position, respectively.

Note 15 – Prior Period Adjustments

In the Governmental Activities, the expenses for the Pocket Park development was not capitalized in the prior year. The beginning net position increased by \$199,873 to adjust the ending net position at June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 3,399,500	\$ 3,399,500	\$ 3,051,123	\$ (348,377)
Intergovernmental	885,500	885,500	1,023,479	137,979
Charges for services	418,510	418,510	359,811	(58,699)
Licenses and permits	159,500	159,500	167,296	7,796
Fines and forfeitures	119,000	119,000	92,396	(26,604)
Interest and rents	28,000	28,000	29,553	1,553
Other	50,000	50,000	65,172	15,172
Total revenue	<u>5,060,010</u>	<u>5,060,010</u>	<u>4,788,830</u>	<u>(271,180)</u>
Expenditures				
Current				
General government	931,460	931,460	1,224,283	(292,823)
Public safety	3,372,050	3,372,050	3,358,976	13,074
Public works	323,900	323,900	322,234	1,666
Culture and recreation	158,400	158,400	402,675	(244,275)
Community development	823,450	823,450	993,297	(169,847)
Total expenditures	<u>5,609,260</u>	<u>5,609,260</u>	<u>6,301,465</u>	<u>(692,205)</u>
Revenue over (under) expenditures	(549,250)	(549,250)	(1,512,635)	(963,385)
Other Financing Sources				
Transfers in (out), net	<u>552,500</u>	<u>552,500</u>	<u>563,562</u>	<u>11,062</u>
Net Change in Fund Balance	<u>\$ 3,250</u>	<u>\$ 3,250</u>	(949,073)	<u>\$ (952,323)</u>
Fund Balance				
Beginning of year			(3,798,278)	
End of year			<u>\$ (4,747,351)</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
GAS TAX FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ 347,000	\$ 347,000	\$ 322,541	\$ (24,459)
Total revenue	<u>347,000</u>	<u>347,000</u>	<u>322,541</u>	<u>(24,459)</u>
Expenditures				
Current				
Public works	<u>340,850</u>	<u>340,850</u>	<u>886,653</u>	<u>(545,803)</u>
Total expenditures	<u>340,850</u>	<u>340,850</u>	<u>886,653</u>	<u>(545,803)</u>
Revenue over (under) expenditures	6,150	6,150	(564,112)	(570,262)
Other Financing Sources				
Transfers in (out), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 6,150</u>	<u>\$ 6,150</u>	<u>(564,112)</u>	<u>\$ (570,262)</u>
Fund Balance				
Beginning of year			<u>316,738</u>	
End of year			<u>\$ (247,374)</u>	

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE

HOME GRANT FUND

YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ -	\$ -	\$ 273,430	\$ 273,430
Total revenue	<u>-</u>	<u>-</u>	<u>273,430</u>	<u>273,430</u>
Expenditures				
Current				
Community development	<u>-</u>	<u>-</u>	<u>313,015</u>	<u>(313,015)</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>313,015</u>	<u>(313,015)</u>
Revenue over (under) expenditures	-	-	(39,585)	(39,585)
Other Financing Sources				
Transfers in (out), net	<u>-</u>	<u>-</u>	<u>39,585</u>	<u>39,585</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund Balance				
Beginning of year			<u>-</u>	
End of year			<u>\$ -</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Licenses, permits and impact fees	\$ 15,000	\$ 15,000	\$ 367,006	\$ 352,006
Interest and rent	-	-	361	361
Total revenue	<u>15,000</u>	<u>15,000</u>	<u>367,367</u>	<u>352,367</u>
Expenditures				
Current				
Community development	101,000	101,000	28,136	72,864
Capital outlay	-	-	273,070	(273,070)
Total expenditures	<u>101,000</u>	<u>101,000</u>	<u>301,206</u>	<u>(200,206)</u>
Revenue over/(under) expenditures	<u>\$ (86,000)</u>	<u>\$ (86,000)</u>	66,161	<u>\$ 152,161</u>
Fund Balance				
Beginning of year			993,741	
End of year			<u>\$ 1,059,902</u>	

CITY OF KING CITY

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY LAST 10 YEARS* YEAR ENDED JUNE 30, 2015

	Miscellaneous 2015	Safety 2015
Proportion of the net pension liability	0.03840%	0.02614%
Proportionate share of the net pension liability	\$ 2,389,457	\$ 1,626,559
Covered - employee payroll	\$ 834,582	\$ 1,087,897
Proportionate share of the net pension liability as a percentage of covered-employee payroll	286.31%	149.51%
Plan's fiduciary net position	\$ 7,090,204	\$ 6,567,188
Plan's fiduciary net position as a percentage of the Total Pension Liability	77.58%	80.15%

* Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown

CITY OF KING CITY

SCHEDULE OF CONTRIBUTIONS LAST 10 YEARS* YEAR ENDED JUNE 30, 2015

	Miscellaneous 2015	Safety 2015
Contractually required contribution (actuarially determined)	\$ 145,093	\$ 279,368
Contributions in relation to the actuarially determined contributions	<u>(145,093)</u>	<u>(279,368)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 834,582	\$ 1,087,897
Contributions as a percentage of covered-employee payroll	17.39%	25.68%

* Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown

Notes to Schedule of Contributions

Valuation Date 06/30/13

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.50% (net of administrative expenses)
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality	Derived using CalPERS' Membership Data for all Funds

SUPPLEMENTAL ONLY INFORMATION

CITY OF KING CITY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

	Special Revenue Funds						
	SLESF/COPS Grant	Traffic		Asset Seizure	Riverview		Airport Operations
		Congestion Relief			Gardens Landscape		
ASSETS							
Cash and investments	\$ 161,796	\$ 211,569	\$ 9,955	\$ 45,720	\$ -		
Accounts receivable	-	-	-	-	149,712		
Interest receivable	49	64	3	14	-		
Due from other governments	17,907	-	-	-	-		
Total assets	\$ 179,752	\$ 211,633	\$ 9,958	\$ 45,734	\$ 149,712		
LIABILITIES							
Accounts payable and accrued expense	\$ 1,089	\$ -	\$ -	\$ -	\$ 10,324		
Due to other funds					196,093		
Total liabilities	1,089	-	-	-	206,417		
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues	-	-	-	-	-		
Total deferred inflows of resources	-	-	-	-	-		
FUND BALANCE							
Restricted							
Circulation improvements	-	211,633	-	-	-		
Capital improvement projects	-	-	-	-	-		
Public safety	178,663	-	9,958	-	-		
Landscape maintenance	-	-	-	45,734	-		
Unassigned	-	-	-	-	(56,705)		
Total fund balance	178,663	211,633	9,958	45,734	(56,705)		
Total liabilities, deferred inflows of resources, and fund balance	\$ 179,752	\$ 211,633	\$ 9,958	\$ 45,734	\$ 149,712		

CITY OF KING CITY

COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
 JUNE 30, 2015

	Special Revenue Funds				Capital Projects Fund		Total Non-major Governmental Funds
	Traffic Safety	CDBG Grant	UUT-Public Safety	Capital Projects	Capital Projects		
ASSETS							
Cash and investments	\$ 44,410	\$ 106,529	\$ 10,746	\$ -	\$ -	\$ 590,725	
Accounts receivable	287	-	25,798	-	-	175,797	
Interest receivable	13	32	3	-	-	178	
Due from other governments	-	-	-	-	-	17,907	
Total assets	\$ 44,710	\$ 106,561	\$ 36,547	\$ -	\$ -	\$ 784,607	
LIABILITIES							
Accounts payable and accrued expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,413	
Due to other funds	-	-	-	-	-	196,093	
Total liabilities	-	-	-	-	-	207,506	
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues	-	-	-	-	-	-	
Total deferred inflows of resources	-	-	-	-	-	-	
FUND BALANCE							
Restricted							
Circulation improvements	44,710	-	-	-	-	256,343	
Capital improvement projects	-	106,561	-	-	-	106,561	
Public safety	-	-	36,547	-	-	225,168	
Landscape maintenance	-	-	-	-	-	45,734	
Unassigned	-	-	-	-	-	(56,705)	
Total fund balance	\$ 44,710	\$ 106,561	\$ 36,547	\$ -	\$ -	\$ 577,101	
Total liabilities, deferred inflows of resources, and fund balance	\$ 44,710	\$ 106,561	\$ 36,547	\$ -	\$ -	\$ 784,607	

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	Special Revenue Funds					
	SLESF/COPS Grant	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations	
Revenue						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	91,667	-	-	-	-	-
Charges for services	-	-	-	-	1,841	-
Fines and forfeitures	-	-	-	-	-	-
Interest and rent	49	64	3	14	227,229	-
Total revenue	<u>91,716</u>	<u>64</u>	<u>3</u>	<u>14</u>	<u>229,070</u>	
Expenditures						
Public safety	79,477	-	6,568	-	-	-
Public works	-	-	-	123	271,190	-
Community development	-	-	-	-	-	-
Total expenditures	<u>79,477</u>	<u>-</u>	<u>6,568</u>	<u>123</u>	<u>271,190</u>	
Revenue over (under) expenditures	12,239	64	(6,565)	(109)	(42,120)	
Other financing sources/(uses)						
Transfers in/(out), net	-	-	-	-	(15,000)	
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>	
Change in Fund Balance	12,239	64	(6,565)	(109)	(57,120)	
Fund Balance						
Beginning of year	166,424	211,569	16,523	45,843	415	
End of year	<u>\$ 178,663</u>	<u>\$ 211,633</u>	<u>\$ 9,958</u>	<u>\$ 45,734</u>	<u>\$ (56,705)</u>	

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	Special Revenue Funds			Capital Projects Fund		Total Non-major Governmental Funds
	Traffic Safety	CDBG Grant	UUT-Public Safety	Capital Projects		
Revenue						
Taxes	\$ -	\$ -	252,807	\$ -	\$ -	252,807
Intergovernmental	-	1,484	-	-	-	93,151
Charges for services	-	-	-	-	-	1,841
Fines and forfeitures	1,058	-	-	-	-	1,058
Interest and rent	13	32	3	-	-	227,407
Total revenue	<u>1,071</u>	<u>1,516</u>	<u>252,810</u>	<u>-</u>	<u>-</u>	<u>576,264</u>
Expenditures						
Public safety	-	-	-	-	-	86,045
Public works	-	-	-	-	-	271,313
Community development	-	5	-	-	-	5
Total expenditures	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>357,363</u>
Revenue over (under) expenditures	1,071	1,511	252,810	-	-	218,901
Other financing sources/(uses)						
Transfers in/(out), net	-	-	(252,807)	14,660	14,660	(253,147)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(252,807)</u>	<u>14,660</u>	<u>14,660</u>	<u>(253,147)</u>
Change in Fund Balance	1,071	1,511	3	14,660	14,660	(34,246)
Fund Balance						
Beginning of year	43,639	105,050	36,544	(14,660)	(14,660)	611,347
End of year	<u>\$ 44,710</u>	<u>\$ 106,561</u>	<u>\$ 36,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 577,101</u>

**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, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 3, 2015.

Internal Control Over Financial Reporting

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

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

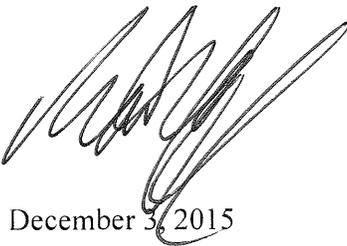
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, consisting of several overlapping loops and strokes, positioned above the date.

December 3, 2015

CITY OF KING CITY

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2015

CURRENT YEAR FINDINGS:

None

STATUS OF PRIOR YEAR FINDINGS:

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