CITY OF KING CITY

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, (the City) as of and for the year ended June 30, 2016, 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, 2016, 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.

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Emphasis of Matter – Change in Accounting Principles

As discussed in Note 1 to the financial statements, effective July 1, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application.* 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 42 through 43 and the Schedule of the City's Proportionate Share of Net Pension Liability and the Schedule of Contributions pages 44 and 45 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 20, 2016, 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 20, 2016

CITY OF KING CITY

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 1,487,172	$ 4,543,644	$ 6,030,816
Restricted cash and investments	-	340,167	340,167
Accounts receivable	687,540	211,852	899,392
Due from other governments	609,306	-	609,306
Interest receivable	2,135	3,183	5,318
Notes receivable	3,000,000	-	3,000,000
Internal balances	(5,000,000)	5,000,000	-
Deferred charges	-	85,371	85,371
Capital assets (net of allowance for depreciation)	12,155,583	6,398,144	18,553,727
Total assets	12,941,736	16,582,361	29,524,097
DEFERRED OUTFLOW OF RESOURCES	443,086	8,699	451,785
LIABILITIES			
Accounts payable and accrued expense	501,172	564,631	1,065,803
Accrued interest	-	78,970	78,970
Deposits	20,257	-	20,257
Compensated absences	420,670	-	420,670
Noncurrent liabilities			
Due within one year	22,146	100,000	122,146
Due in more than one year	48,324	4,350,000	4,398,324
Net pension liability	3,856,308	228,821	4,085,129
Total liabilities	4,868,877	5,322,422	10,191,299
DEFERRED INFLOW OF RESOURCES	673,789	47,712	721,501
NET POSITION			
Net investment in capital assets	12,174,395	1,948,144	14,122,539
Restricted for debt service	-	340,167	340,167
Restricted for capital projects	1,382,438	-	1,382,438
Restricted for long-term notes receivable	3,000,000	-	3,000,000
Restricted for specific projects and programs	242,557	-	242,557
Unrestricted (deficit)	(8,957,234)	8,932,615	(24,619)
Total net position	$ 7,842,156	$ 11,220,926	$ 19,063,082

See accompanying notes.

CITY OF KING CITY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expense	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net Revenue/(Expense) and Changes in Net Position, Primary Government: Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	$ 1,136,455	$ 21,954	$ 68,001	$ -	$ (1,046,500)	$ -	$ (1,046,500)
Public safety	2,954,289	96,468	193,181	-	(2,664,640)	-	(2,664,640)
Public works	1,577,498	196,328	513,028	-	(868,142)	-	(868,142)
Culture and recreation	491,179	145,622	13,967	-	(331,590)	-	(331,590)
Community development	1,321,740	320,633	-	-	(1,001,107)	-	(1,001,107)
Total governmental activities	7,481,161	781,005	788,177	-	(5,911,979)	-	(5,911,979)
Business-type activities							
Sewer	1,102,016	2,432,043	-	-	-	1,330,027	1,330,027
Total business-type activities	1,102,016	2,432,043	-	-	-	1,330,027	1,330,027
Total primary government	$ 8,583,177	$ 3,213,048	$ 788,177	$ -	(5,911,979)	1,330,027	(4,581,952)
General Revenue							
Property taxes					833,293	-	833,293
Franchise taxes					392,813	-	392,813
Sales taxes					1,831,252	-	1,831,252
Transient occupancy taxes					429,947	-	429,947
Utility users tax					261,208	-	261,208
Business licenses					84,996	-	84,996
Motor vehicle in-lieu					965,457	-	965,457
Investment income					11,875	79,599	91,474
Gain on sale of property					641,284	-	641,284
Other revenues					96,871	7,143	104,014
Transfers					350,000	(350,000)	-
Total general revenue and transfers					5,898,996	(263,258)	5,635,738
Change in Net Position					(12,983)	1,066,769	1,053,786
Net Position							
Beginning of year					7,855,139	10,154,157	18,009,296
End of year					$ 7,842,156	$ 11,220,926	$ 19,063,082

See accompanying notes.

CITY OF KING CITY

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	HOME Grant	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	$ 89,410	$ -	$ 1,032,876	$ 364,886	$ 1,487,172
Accounts receivable	663,514	-	-	24,026	687,540
Due from other governments	566,332	-	-	42,974	609,306
Interest receivable	40	-	1,493	602	2,135
Due from other funds	-	-	283,458	-	283,458
Notes receivable	-	3,000,000	-	-	3,000,000
Total assets	$ 1,319,296	$ 3,000,000	$ 1,317,827	$ 432,488	$ 6,069,611
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Accounts payable and accrued expense	$ 468,434	$ -	$ 10,823	$ 21,915	$ 501,172
Deposits	20,257	-	-	-	20,257
Due to other funds	-	-	89,941	193,517	283,458
Advance from other funds	5,000,000	-	-	-	5,000,000
Total liabilities	5,488,691	-	100,764	215,432	5,804,887
Deferred inflows of resources					
Deferred loans	-	3,000,000	-	-	3,000,000
Total deferred inflows of resources	-	3,000,000	-	-	3,000,000
FUND BALANCE					
Restricted					
Circulation improvements	-	-	-	46,342	46,342
Capital improvement projects	-	-	1,217,063	119,033	1,336,096
Public safety	-	-	-	196,702	196,702
Landscape maintenance	-	-	-	45,855	45,855
Unassigned	(4,169,395)	-	-	(190,876)	(4,360,271)
Total fund balance	(4,169,395)	-	1,217,063	217,056	(2,735,276)
Total liabilities, deferred inflows of resources, and fund balance	$ 1,319,296	$ 3,000,000	$ 1,317,827	$ 432,488	$ 6,069,611

See accompanying notes.

CITY OF KING CITY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances	$ (2,735,276)
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	12,155,583
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	(3,856,308)
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	(230,703)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the Governmental Funds	(420,670)
Net position of governmental activities	$ 7,842,156

See accompanying notes.

CITY OF KING CITY

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	HOME Grant	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	$ 4,452,738	$ -	$ -	$ 543,381	$ 4,996,119
Intergovernmental	94,707	-	-	379,906	474,613
Charges for services	17,335	-	17,630	102,921	137,886
Licenses, permits and impact fees	508,970	-	178,725	-	687,695
Fines and forfeitures	40,994	-	-	2,449	43,443
Interest and rent	30,984	-	6,596	2,690	40,270
Other	96,871	-	-	-	96,871
Total revenue	5,242,599	-	202,951	1,031,347	6,476,897
Expenditures					
Current					
General government	1,180,326	-	-	-	1,180,326
Public safety	2,851,473	-	-	94,439	2,945,912
Public works	343,959	-	-	706,733	1,050,692
Culture and recreation	282,471	-	-	-	282,471
Community development	1,285,995	-	45,790	-	1,331,785
Capital outlay	-	-	-	143,880	143,880
Debt Service					
Principal	-	-	-	26,339	26,339
Total expenditures	5,944,224	-	45,790	971,391	6,961,405
Revenue over/(under) expenditures	(701,625)	-	157,161	59,956	(484,508)
Other Financing Sources/(Uses)					
Sale of property	660,096	-	-	-	660,096
Loan proceeds	-	-	-	96,809	96,809
Transfers in/(out) - net	619,485	-	-	(269,485)	350,000
Total other financing sources/(uses)	1,279,581	-	-	(172,676)	1,106,905
Change in Fund Balance	577,956	-	157,161	(112,720)	622,397
Fund Balance					
Beginning of year	(4,747,351)	-	1,059,902	329,776	(3,357,673)
End of year	$ (4,169,395)	$ -	$ 1,217,063	$ 217,056	$ (2,735,276)

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, 2016

Net change in fund balance - total governmental funds	$ 622,397
Amounts reported for governmental activities in the statement of activities are different because:	
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due	
Issuance of long-term debt is an other financing source in the Governmental Funds, but a long-term liability in the Statement of Net Position	(96,809)
Repayment of long-term debt is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position	26,339
Governmental Funds report sale of property as other financing resources. However, in the Statement of Activities only the original cost of the property is reported as a reduction in capital assets	(18,812)
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	143,880
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	312,114
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	(64,852)
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 recorded as expenditures in Governmental Funds	(937,240)
Change in net position of governmental activities	$ (12,983)

See accompanying notes.

CITY OF KING CITY

STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2016

	Business-Type Activities - Enterprise Fund
	Sewer
ASSETS	
Current assets	
Cash and investments	$ 4,543,644
Restricted cash and investments	340,167
Accounts receivable	211,852
Interest receivable	3,183
Total current assets	5,098,846
Non-current assets	
Deferred charges	85,371
Advance to other funds	5,000,000
Property, plant and equipment (net of allowance for depreciation)	6,398,144
Total noncurrent assets	11,483,515
Total assets	16,582,361
DEFERRED OUTFLOW OF RESOURCES	8,699
LIABILITIES	
Current liabilities	
Accounts payable and accrued expense	564,631
Accrued interest	78,970
Current portion of long-term debt	100,000
Total current liabilities	743,601
Noncurrent Liabilities	
Long-term debt	4,350,000
Net pension liability	228,821
Total liabilities	5,322,422
DEFERRED INFLOW OF RESOURCES	47,712
NET POSITION	
Net investment in capital assets	1,948,144
Restricted for debt service	340,167
Unrestricted	8,932,615
Total net position	$ 11,220,926

See accompanying notes.

CITY OF KING CITY

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Fund
	Sewer
Operating Revenue	
Charges for services	$ 2,432,043
Rents and concessions	59,693
Total operating revenue	2,491,736
Operating Expense	
Contractual services and utilities	97,577
Personnel	182,977
Supplies and materials	412,741
Depreciation	167,707
Total operating expense	861,002
Operating income/(loss)	1,630,734
Nonoperating Revenue/(Expense)	
Interest income	27,049
Interest expense	(237,449)
Amortization expense	(3,565)
Total nonoperating revenue/(expense)	(213,965)
Net income/(loss) before transfers	1,416,769
Operating Transfers In/(Out)	(350,000)
Change in Net Position	1,066,769
Net Position	
Beginning of year	10,154,157
End of year	$ 11,220,926

See accompanying notes.

CITY OF KING CITY

STATEMENT OF CASH FLOW - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

	Business-Type Activities - Enterprise Fund	
		Sewer
Operating Activities		
Receipts from customers and users	$	2,467,929
Payments for contractual services and utilities		436,983
Payments to employees		(189,172)
Payments to suppliers		(412,741)
Net cash provided by (used in) operating activities		2,302,999
Non-capital Financial Activities		
Cash received from (paid to) other funds		(574,472)
Net cash provided by (used in) noncapital financing activities		(574,472)
Capital and Related Financing Activities		
Purchase of property, plant, and equipment		(3,684,351)
Principal paid on long-term debt		(95,000)
Interest paid on long-term debt		(238,526)
Net cash provided by (used in) capital and related financing activities		(4,017,877)
Investing Activities		
Interest received		27,152
Net cash provided by (used in) investing activities		27,152
Net Decrease in Cash		(2,262,198)
Cash		
Beginning of year		7,146,009
End of year	$	4,883,811
Reconciliation of Cash to Financial Statements		
Cash and investments	$	4,543,644
Restricted cash and investments		340,167
Total cash and investments	$	4,883,811

See accompanying notes.

CITY OF KING CITY

STATEMENT OF CASH FLOW - PROPRIETARY FUND (CONTINUED)
YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities		
Operating income (loss)	$	1,630,734
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		167,707
(Increase) Decrease in Deferred Outflow of Resources		14,350
(Increase) Decrease in Accounts Receivable		(23,807)
Increase (Decrease) in Deferred Inflows of Resources		(9,342)
Increase (Decrease) in Net Pension Liability		(11,203)
Increase (Decrease) in Accounts Payable and Accrued Expense		534,560
Net Cash Provided by Operating Activities	$	2,302,999
Noncash Investing, Capital, and Financing Activities		
Amortization of bond discount	$	3,565

See accompanying notes.

CITY OF KING CITY

STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY
JUNE 30, 2016

Assets		
Cash and investments		
Cash and investments	$	2,243,692
Cash and investments with fiscal agent		4,166,355
Land held for resale		620,000
Total assets		7,030,047
Liabilities		
Accounts payable and accrued liabilities		6,191
Interest payable		235,527
Long-term debt		
Due within one year		443,736
Due in more than one year		10,875,000
Total liabilities		11,560,454
Net Position		
Held in trust for other governments	$	(4,530,407)

See accompanying notes.

CITY OF KING CITY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY
JUNE 30, 2016

Additions	
Property taxes	$ 1,345,565
Investment earnings and other	25,016
Sale of land held for resale	669,650
Total additions	2,040,231
Deductions	
Administrative costs	71,322
Program expenses of former redevelopment agency	32,466
Bond issuance related costs	121,035
Interest and fiscal agency expenses of former redevelopment agency	586,996
Total deductions	811,819
Change In Net Position	1,228,412
Net Position	
Beginning of year	(5,758,819)
End of year	$ (4,530,407)

See accompanying notes.

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.

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.

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.

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 and certificates of deposit. Investments are recorded at amortized cost or fair value. Fair value is based upon quoted market prices.

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, 2016, 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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:

	Years
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.

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.

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 Effective Accounting Pronouncements

For the year ended June 30, 2016, the City implemented GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application.* The primary objective of GASB 72 is to provide guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. There was no material impact on the City's financial statements as a result of the implementation of Statement No. 72. All required disclosures were added to Note 3.

Note 2 – Stewardship, Compliance and Accountability

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

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

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.

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 6,030,816
Restricted Cash and Investments	340,167
Fiduciary Funds:	
Cash and Investments	2,243,692
Cash and Investments with fiscal agent	4,166,355
Total Cash and Investments	$ 12,781,030

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	$ 972
Deposits with Financial Institutions	4,419,709
Local Agency Investment Fund	3,853,826
Held by Fiscal Agent:	
Money Market Mutual Funds	1,153,900
US Government Issues	3,352,623
Total Cash and Investments	$ 12,781,030

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs to valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

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

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 3 – Cash and Investments (Continued)

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

LAIF is valued based on the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (Level 2 input).

The City had the following recurring fair value meausrements as of June 30, 2016:

	Level 1	Level 2	Level 3	June 30, 2016 Balance
Investments by fair value level:				
Debt Securities:				
U.S. Treasury Obligations	$ -	$ 3,352,623	$ -	$ 3,352,623
Total Debt Securities	-	3,352,623	-	3,352,623
Equity Securities:				
LAIF	-	3,853,826	-	3,853,826
Total Equity Securities	-	3,853,826	-	3,853,826
Investments carried at amortized cost:				
Deposits				4,420,681
Money Market Mutual Funds				1,153,900
Total Investments amortized at cost				5,574,581
Total Investments				$ 12,781,030

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.

Note 3 – Cash and Investments (Continued)

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

Investments Authorized by Debt Agreements

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

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

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2016 the City had the following investments:

Investment Type	12 Months or less	13 to 24 Months	25 to 84 Months	Total
LAIF	$ 3,853,826	$ -	$ -	$ 3,853,826
Money Market Mutual Funds	1,153,900	-	-	1,153,900
US Government Issues	3,352,623	-	-	3,352,623
Total Investments	$ 8,360,349	$ -	$ -	8,360,349
Cash in bank and on hand				4,420,681
Total Cash and Investments				$ 12,781,030

Disclosures Relating to Credit Risk

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

	Rating as of Year-End			
	AAA	A	Ba	Total
Investments				
Money Market Mutual Funds	$ 1,153,900	$ -	$ -	$ 1,153,900
Total Investments	$ 1,153,900	$ -	$ -	1,153,900
Not rated:				
LAIF				3,853,826
US Government Issues				3,352,623
Cash in bank and on hand				4,420,681
Total Cash and Investments				$ 12,781,030

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.

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

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

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

GASB Statement No. 40 requires that the following disclosures be made with respect to custodial credit risks relating to deposits and investments: The City did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts. As of June 30, 2016, the City investments in the following investment types were held by the broker-dealer that was used by the City to buy the securities:

Investment Type	Reported Amount
Money Market Mutual Funds	$ 1,153,900
US Government Issues	3,352,623

Investment in State Investment Pool

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

Note 4 – Advances To and From, Interfund Receivables and Payables, and Transfers

Advances To and From

Advances to and from consist of long-term loans between funds. On February 9, 2016, the Sewer Fund loaned the General Fund $5,000,000 at .275% to be repaid back in 7 years.

Advances to and from balances as of June 30, 2016 are as follows:

	Advance To	Advance From
Sewer Fund	$ 5,000,000	$ -
General Fund	-	5,000,000
	$ 5,000,000	$ 5,000,000

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, 2016 are as follows:

	Due From	Due To
Gas Tax Fund	$ -	$ 104,362
Development Impact Fees Fund	283,458	89,941
Airport Operations Fund	-	89,155
	$ 283,458	$ 283,458

The interfund payable balance due to the Development Impact Fees 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.

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

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.

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	$ 619,485	$ -
Enterprise Funds:		
Sewer Fund	-	(350,000)
Nonmajor Governmental Funds:		
Airport Operations Fund	-	(7,500)
UUT-Public Safety Fund	-	(261,985)
	$ 619,485	$ (619,485)

Note 5 – Capital Assets

Capital asset activities for the year ended June 30, 2016 were as follows:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Governmental Activities				
Capital assets, not being depreciated				
Land	$ 213,539	$ -	$ (18,812)	$ 194,727
Total capital assets, not being depreciated	213,539	-	(18,812)	194,727
Capital assets, being depreciated				
Buildings and improvements	8,581,044	-	-	8,581,044
Infrastructure	14,034,131	-	-	14,034,131
Machinery and equipment	2,855,702	143,880	-	2,999,582
Total capital assets, being depreciated	25,470,877	143,880	-	25,614,757
Less accumulated depreciation for:				
Buildings and improvements	(5,790,625)	(226,747)	-	(6,017,372)
Infrastructure	(4,359,725)	(623,645)	-	(4,983,370)
Machinery and equipment	(2,566,311)	(86,848)	-	(2,653,159)
Total accumulated depreciation	(12,716,661)	(937,240)	-	(13,653,901)
Total capital assets, being depreciated, net	12,754,216	(793,360)	-	11,960,856
Governmental activities capital assets, net	$ 12,967,755	$ (793,360)	$ (18,812)	$ 12,155,583
Business-Type Activities				
Capital assets, not being depreciated				
Land	$ 764,093	$ -	$ -	$ 764,093
Construction in progress	-	3,661,392	-	3,661,392
Total capital assets, not being depreciated	764,093	3,661,392	-	4,425,485
Capital assets, being depreciated				
Building and improvements	6,312,912	-	-	6,312,912
Plant and equipment	1,183,279	22,959	-	1,206,238
Total capital assets, being depreciated	7,496,191	22,959	-	7,519,150
Less: accumulated depreciation	(5,378,784)	(167,707)	-	(5,546,491)
Total capital assets, being depreciated, net	2,117,407	(144,748)	-	1,972,659
Business-type activities capital assets, net	$ 2,881,500	$ 3,516,644	$ -	$ 6,398,144

Note 5 – Capital Assets (Continued)

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

Governmental Functions:	
General Government	$ 34,842
Public Safety	141,665
Public Works	544,829
Culture and Recreation	215,904
	$ 937,240
Business-Type Functions:	
Sewer	$ 167,707

Note 6 – Notes Receivables

Notes receivable and deferred loans consisted of the following at June 30, 2016:

King City Pacific Associates, L.P. - The HOME Investment Partnership Grant program approved $3,000,000 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, 2016 was $3,000,000.

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, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Governmental Activities Long Term Debt					
2016 Police Vehicles Capital Lease	$ -	$ 96,809	$ (26,339)	$ 70,470	$ 22,146
Total Governmental Activities Long-term Debt	$ -	$ 96,809	$ (26,339)	$ 70,470	$ 22,146
Business-Type Activities Long Term Debt					
2009 Refunding Certificates of Participation	$ 4,545,000	$ -	$ (95,000)	$ 4,450,000	$ 100,000
Total Business-Type Activities Debt	$ 4,545,000	$ -	$ (95,000)	$ 4,450,000	$ 100,000
Compensated Absences					
Governmental Activities	$ 355,818	$ 64,852	$ -	$ 420,670	

Note 7 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2016 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 2015-16 fiscal year, the Authority was in compliance with these bond covenants.

2016 Police Vehicles Capital Lease – On October 1, 2015, the City entered into a lease agreement for two police vehicles. The lease bears an interest rate of 5.95% and terminates on October 1, 2018.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2016 was:

	Government-Wide Activities		Business-Type Activities	
Years ending June 30,	Principal	Interest	Principal	Interest
2017	$ 22,146	$ 4,193	$ 100,000	$ 235,061
2018	23,464	2,875	105,000	231,111
2019	24,860	1,479	110,000	226,756
2020	-	-	115,000	221,986
2021	-	-	120,000	216,770
2022-2026	-	-	685,000	987,825
2027-2031	-	-	880,000	779,215
2032-2036	-	-	1,155,000	499,100
2037-2040	-	-	1,180,000	136,920
	$ 70,470	$ 8,547	$ 4,450,000	$ 3,534,744

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, 2016 the outstanding balance on both COPS Series was $9,168,949. As of June 30, 2016 the Corporation is paying interest only through a forbearance agreement through December 31, 2017.

Note 8 – Deficit Fund Balances

Fund Balance Deficits - The following is a summary of deficit fund balances as of June 30, 2016:

Governmental Funds	
General	$(4,169,395)
Airport Operations	(66,657)
Gas Tax	(124,219)
	$(4,360,271)

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 2015-16 pension contributions subsequent to measurement date	$ 439,781
Difference between expected and actual experience	12,004
Total deferred outflows of resources	$ 451,785

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	$ 122,280
Changes in assumptions	242,508
Adjustment due to differences in proportions	271,859
Difference between projected and actual contributions	56,821
Difference between expected and actual experience	28,033
Total deferred inflows of resources	$ 721,501

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, deferred loans, is reported only in the governmental funds balance sheet. The City reports in the HOME Grant fund, $3,000,000, deferred loans.

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 contribution requirements of plan members are established by State statute and the employer contribution is established and may be amended by PERS.

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

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	Safety
Hire Date	Prior to January 1, 2013	Prior to January 1, 2013
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%	9.00%
Required Employer Contribution Rates	29.690%	19.584%

	PEPRA Miscellaneous	PEPRA Safety
Hire Date	On or after January 1, 2013	On or after January 1, 2013
Benefit Formula	2.0% at 55; maximum 2% COLA	2.7% at 57; maximum 2% COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	55	57
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	6.25%	11.50%
Required Employer Contribution Rates	29.690%	11.153%

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.

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

For the year ended June 30, 2016, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	$ 439,781
Contributions – employee	$ 154,443

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

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$2,431,259
Safety	$1,653,870

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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows:

	Miscellaneous	Safety
Proportion - June 30, 2014	0.09668%	0.04336%
Proportion - June 30, 2015	0.08862%	0.04014%
Change	-0.00806%	-0.00322%

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

For the year ended June 30, 2016, the City recognized pension expense of $403,260. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 439,781	$ -
Differences in expected and actual experience	12,004	(28,033)
Adjustment due to differences in proportions	-	(271,859)
Changes in assumptions or other inputs	-	(242,508)
Differences in projected and actual contributions	-	(56,821)
Net differences between projected and actual earnings on pension plan investments	-	(122,280)
Total	$ 451,785	$ (721,501)

The $439,781 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	
2017	$ (206,159)
2018	(206,381)
2019	(192,047)
2020	(104,910)
Total	$ (709,497)

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

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Date for all Funds [1]
Post Retirement Benefit Increa	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter
Investment Rate of Return	7.50%

[1] 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, 2014 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.

Change of assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

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

Discount rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected rate of returns, net of pension plan investment expense and 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 the expected pension fund (Public Employees' Retirement 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 the 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 was calculated. The expected nominal 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 long-term expected real rates of return by asset class can be found in CalPERS' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

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

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 (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Miscellaneous	$ 4,077,393	$ 2,431,259	$ 1,072,186
Safety	$ 2,651,844	$ 1,653,870	$ 835,689

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, 2016, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

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 $25,000 per occurrence, and $250,000 for police professional activities. The fund carries excess loss coverage for general liability claims up to $1,000,000 per occurrence and purchases excess coverage to $29,000,000 per occurrence, and is uninsured for losses in excess of $29,000,000 per occurrence. 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.

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 20, 2016, the date which these financial statements were available to be issued.

On August 2, 2016, the California Department of Finance approved the Successor Agency Series 2016 Tax Allocation Refunding Bonds to refinance the King City Tax Refunding Bonds Series 2011. It did not change the maturity date, but reduced the interest rate on the bonds from 7.250% to 3.280% - 4.510%. This resulted in a cost savings of $742,000 over the life of the bonds.

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.

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

Note 14 – Commitments

Starting July 10, 2016, the City will start making payments on a solar lease arrangement. The amount financed was $2,369,187. Annual payments are from $80,876 to $143,734 and terminates on January 10, 2030. Interest rate is 2%.

On June 14, 2016, the City entered into 60-month phone equipment lease for a montly payment of $920.31 at 10.370% interest rate. Annual payments are from $4,602 to $11,044 and terminates on July 1, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive/ (Negative)
Revenue				
Taxes	$ 4,529,500	$ 4,340,400	$ 4,452,738	$ 112,338
Intergovernmental	143,500	133,500	94,707	(38,793)
Charges for services	23,600	23,600	17,335	(6,265)
Licenses and permits	452,750	452,750	508,970	56,220
Fines and forfeitures	119,000	119,000	40,994	(78,006)
Interest and rents	38,281	38,281	30,984	(7,297)
Other	25,000	25,000	96,871	71,871
Total revenue	5,331,631	5,132,531	5,242,599	110,068
Expenditures				
Current				
General government	1,131,875	946,875	1,180,326	(233,451)
Public safety	3,111,250	3,241,750	2,851,473	390,277
Public works	359,125	359,125	343,959	15,166
Culture and recreation	213,250	270,750	282,471	(11,721)
Community development	1,118,350	1,229,350	1,285,995	(56,645)
Total expenditures	5,933,850	6,047,850	5,944,224	103,626
Revenue over (under) expenditures	(602,219)	(915,319)	(701,625)	213,694
Other Financing Sources				
Sale of property	-	-	660,096	660,096
Transfers in (out), net	552,500	552,500	619,485	66,985
Total other financing sources/(uses)	552,500	552,500	1,279,581	727,081
Net Change in Fund Balance	$ (49,719)	$ (362,819)	577,956	$ 280,679
Fund Balance				
Beginning of year			(4,747,351)	
End of year			$ (4,169,395)	

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Charges for services	$ 5,000	$ 5,000	$ 17,630	$ 12,630
Licenses, permits and impact fees	26,000	26,000	178,725	152,725
Interest and rent	-	-	6,596	6,596
Total revenue	31,000	31,000	202,951	171,951
Expenditures				
Current				
Community development	9,000	9,000	45,790	(36,790)
Total expenditures	9,000	9,000	45,790	(36,790)
Revenue over/(under) expenditures	$ 22,000	$ 22,000	157,161	$ 135,161
Fund Balance				
Beginning of year			1,059,902	
End of year			$ 1,217,063	

CITY OF KING CITY

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 YEARS*
YEAR ENDED JUNE 30, 2016

	Miscellaneous		Safety	
	2015	2016	2015	2016
Proportion of the net pension liability	0.09668%	0.08862%	0.04336%	0.04014%
Proportionate share of the net pension liability	$ 2,389,457	$ 2,431,259	$ 1,626,559	$ 1,653,870
Covered - employee payroll	$ 834,582	$ 936,886	$ 1,087,897	$ 939,684
Proportionate share of the net pension liability as a percentage of covered-employee payroll	286.31%	259.50%	149.51%	176.00%
Plan's fiduciary net position	$ 7,090,204	$ 8,223,238	$ 6,567,188	$ 6,832,315
Plan's fiduciary net position as a percentage of the Total Pension Liability	77.58%	77.18%	80.15%	80.51%

* Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown.

CITY OF KING CITY

SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS*
YEAR ENDED JUNE 30, 2016

	Miscellaneous		Safety	
	2015	2016	2015	2016
Contractually required contribution (actuarially determined)	$ 145,093	$ 187,302	$ 279,368	$ 213,094
Contributions in relation to the actuarially determined contributions	(145,093)	(187,302)	(279,368)	(213,094)
Contributions deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 834,582	$ 936,886	$ 1,087,897	$ 939,684
Contributions as a percentage of covered-employee payroll	17.39%	19.99%	25.68%	22.68%

* Fiscal year 2014-15 was the first year of implementation, therefore only two years are shown

Notes to Schedule of Contributions

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007
Mortality	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries
Payroll Growth	3.00%

SUPPLEMENTAL ONLY INFORMATION

CITY OF KING CITY

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Special Revenue Funds				
	SLESF/COPS Grant	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations
ASSETS					
Cash and investments	$ 131,454	$ -	$ 11,048	$ 45,813	$ 178
Accounts receivable	-	-	-	-	24,026
Interest receivable	183	-	13	52	-
Due from other governments	17,589	-	-	-	210
Total assets	$ 149,226	$ -	$ 11,061	$ 45,865	$ 24,414
LIABILITIES					
Accounts payable and accrued expense	$ 132	$ -	$ -	$ 10	$ 1,916
Due to other funds	-	-	-	-	89,155
Total liabilities	132	-	-	10	91,071
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
FUND BALANCE					
Restricted					
Circulation improvements	-	-	-	-	-
Capital improvement projects	-	-	-	-	-
Public safety	149,094	-	11,061	-	-
Landscape maintenance	-	-	-	45,855	-
Unassigned	-	-	-	-	(66,657)
Total fund balance	149,094	-	11,061	45,855	(66,657)
Total liabilities, deferred inflows of resources, and fund balance	$ 149,226	$ -	$ 11,061	$ 45,865	$ 24,414

CITY OF KING CITY

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2016

	Special Revenue Funds				Total
	Traffic Safety	CDBG Grant	Gas Tax	UUT-Public Safety	Non-major Governmental Funds
ASSETS					
Cash and investments	$ 46,229	$ 118,898	$ -	$ 11,266	$ 364,886
Accounts receivable	-	-	-	-	24,026
Interest receivable	52	135	-	167	602
Due from other governments	61	-	-	25,114	42,974
Total assets	$ 46,342	$ 119,033	$ -	$ 36,547	$ 432,488
LIABILITIES					
Accounts payable and accrued expense	$ -	$ -	$ 19,857	$ -	$ 21,915
Due to other funds	-	-	104,362	-	193,517
Total liabilities	-	-	124,219	-	215,432
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
FUND BALANCE					
Restricted					
Circulation improvements	46,342	-	-	-	46,342
Capital improvement projects	-	119,033	-	-	119,033
Public safety	-	-	-	36,547	196,702
Landscape maintenance	-	-	-	-	45,855
Unassigned	-	-	(124,219)	-	(190,876)
Total fund balance	46,342	119,033	(124,219)	36,547	217,056
Total liabilities, deferred inflows of resources, and fund balance	$ 46,342	$ 119,033	$ -	$ 36,547	$ 432,488

CITY OF KING CITY

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Special Revenue Funds				
	SLESF/COPS Grant	Traffic Congestion Relief	Asset Seizure	Riverview Gardens Landscape	Airport Operations
Revenue					
Taxes	$ -	$ -	$ -	$ 24	$ -
Intergovernmental	137,478	-	-	-	60,602
Charges for services	-	-	-	-	102,707
Fines and forfeitures	-	-	1,048	-	-
Interest and rent	802	-	55	229	-
Total revenue	138,280	-	1,103	253	163,309
Expenditures					
Public safety	94,439	-	-	-	-
Public works	-	-	-	132	165,761
Capital outlay	143,880	-	-	-	-
Debt service					
Principal	26,339	-	-	-	-
Total expenditures	264,658	-	-	132	165,761
Revenue over (under) expenditures	(126,378)	-	1,103	121	(2,452)
Other financing sources/(uses)					
Loan proceeds	96,809	-	-	-	-
Transfers in/(out), net	-	(211,633)	-	-	(7,500)
Total other financing sources (uses)	96,809	(211,633)	-	-	(7,500)
Change in Fund Balance	(29,569)	(211,633)	1,103	121	(9,952)
Fund Balance					
Beginning of year	178,663	211,633	9,958	45,734	(56,705)
End of year	$ 149,094	$ -	$ 11,061	$ 45,855	$ (66,657)

CITY OF KING CITY

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Special Revenue Funds				Total Non-major Governmental Funds
	Traffic Safety	CDBG Grant	Gas Tax	UUT-Public Safety	
Revenue					
Taxes	$ -	$ -	$ 282,149	$ 261,208	$ 543,381
Intergovernmental	-	11,662	170,164	-	379,906
Charges for services	-	214	-	-	102,921
Fines and forfeitures	1,401	-	-	-	2,449
Interest and rent	231	596	-	777	2,690
Total revenue	1,632	12,472	452,313	261,985	1,031,347
Expenditures					
Public safety	-	-	-	-	94,439
Public works	-	-	540,840	-	706,733
Capital outlay	-	-	-	-	143,880
Debt service					
Principal	-	-	-	-	26,339
Total expenditures	-	-	540,840	-	971,391
Revenue over (under) expenditures	1,632	12,472	(88,527)	261,985	59,956
Other financing sources/(uses)					
Loan proceeds	-	-	-	-	96,809
Transfers in/(out), net	-	-	211,633	(261,985)	(269,485)
Total other financing sources (uses)	-	-	211,633	(261,985)	(172,676)
Change in Fund Balance	1,632	12,472	123,106	-	(112,720)
Fund Balance					
Beginning of year	44,710	106,561	(247,325)	36,547	329,776
End of year	$ 46,342	$ 119,033	$ (124,219)	$ 36,547	$ 217,056

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Jaribu Nelson C.P.A.
Lan T. Kimoto
Jeffrey M. Schill

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, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 20, 2016.

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 a material weakness.

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.

December 20, 2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Summary Schedule of Prior Audit Findings

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