

CITY OF KING CITY

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2017**

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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, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 41 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

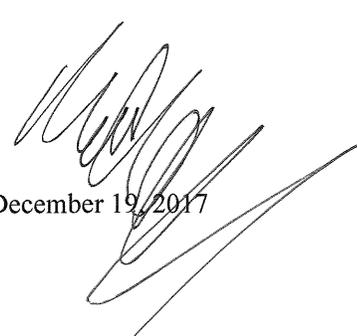
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 19, 2017, 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 19, 2017



CITY OF KING CITY

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 1,983,741	\$ 4,757,761	\$ 6,741,502
Restricted cash and investments	-	340,400	340,400
Accounts receivable	16,919	178,298	195,217
Due from other governments	1,851,373	-	1,851,373
Interest receivable	4,082	1,138	5,220
Notes receivable	3,000,000	-	3,000,000
Internal balances	(2,519,087)	2,519,087	-
Deferred charges	-	81,806	81,806
Capital assets (net of allowance for depreciation)	13,947,479	10,270,908	24,218,387
Total assets	<u>18,284,507</u>	<u>18,149,398</u>	<u>36,433,905</u>
DEFERRED OUTFLOW OF RESOURCES	<u>1,273,550</u>	<u>23,710</u>	<u>1,297,260</u>
LIABILITIES			
Accounts payable and accrued expense	1,570,088	76,243	1,646,331
Accrued interest	-	77,037	77,037
Deposits	3,775	-	3,775
Compensated absences	517,240	-	517,240
Noncurrent liabilities			
Due within one year	75,679	140,867	216,546
Due in more than one year	1,083,780	5,720,094	6,803,874
Net pension liability	4,956,383	94,948	5,051,331
Total liabilities	<u>8,206,945</u>	<u>6,109,189</u>	<u>14,316,134</u>
DEFERRED INFLOW OF RESOURCES	<u>415,875</u>	<u>6,659</u>	<u>422,534</u>
NET POSITION			
Net investment in capital assets	13,947,479	4,409,947	18,357,426
Restricted for debt service	-	340,400	340,400
Restricted for capital projects	1,553,423	-	1,553,423
Restricted for long-term notes receivable	3,000,000	-	3,000,000
Restricted for specific projects and programs	289,871	-	289,871
Unrestricted (deficit)	(7,855,536)	7,306,913	(548,623)
Total net position	<u>\$ 10,935,237</u>	<u>\$ 12,057,260</u>	<u>\$ 22,992,497</u>

CITY OF KING CITY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

Functions/Programs	Net Revenue/(Expense) and Changes in Net Position						
	Program Revenue			Primary Government			
	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 1,276,020	\$ 35,130	\$ 6,392	\$ -	\$ (1,234,498)	\$ -	\$ (1,234,498)
Public safety	3,329,449	151,089	174,936	-	(3,003,424)	-	(3,003,424)
Public works	1,691,118	234,888	1,663,647	-	207,417	-	207,417
Culture and recreation	529,002	202,763	4,795	-	(321,444)	-	(321,444)
Community development	1,329,107	377,879	-	-	(951,228)	-	(951,228)
Debt service							
Interest expense	52,154	-	-	-	(52,154)	-	(52,154)
Total governmental activities	8,206,850	1,001,749	1,849,770	-	(5,355,331)	-	(5,355,331)
Business-type activities							
Sewer	1,345,250	2,454,094	-	-	-	1,108,844	1,108,844
Total business-type activities	1,345,250	2,454,094	-	-	-	1,108,844	1,108,844
Total primary government	\$ 9,552,100	\$ 3,455,843	\$ 1,849,770	\$ -	(5,355,331)	1,108,844	(4,246,487)
General Revenue							
Property taxes					1,095,316	-	1,095,316
Franchise taxes					474,232	-	474,232
Sales taxes					2,145,322	-	2,145,322
Transient occupancy taxes					419,109	-	419,109
Utility users tax					268,010	-	268,010
Business licenses					144,666	-	144,666
Motor vehicle in-lieu					855,197	-	855,197
Investment income					14,605	77,490	92,095
Gain on sale of property					2,253,291	-	2,253,291
Other revenues					428,664	-	428,664
Transfers					350,000	(350,000)	-
Total general revenue and transfers					8,448,412	(272,510)	8,175,902
Change in Net Position					3,093,081	836,334	3,929,415
Net Position							
Beginning of year					7,842,156	11,220,926	19,063,082
End of year					10,935,237	12,057,260	22,992,497

CITY OF KING CITY

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2017

	General	HOME Grant	Development Impact Fees	Gas Tax	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 288,794	\$ -	\$ 1,283,899	\$ -	\$ 411,048	\$ 1,983,741
Accounts receivable	2,704	-	-	-	14,215	16,919
Due from other governments	462,021	-	-	1,199,731	189,621	1,851,373
Interest receivable	2,794	-	873	-	415	4,082
Due from other funds	718,023	-	230,357	-	-	948,380
Notes receivable	-	3,000,000	-	-	-	3,000,000
Total assets	\$ 1,474,336	\$ 3,000,000	\$ 1,515,129	\$ 1,199,731	\$ 615,299	\$ 7,804,495
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE						
Accounts payable and accrued expense	\$ 559,799	\$ -	\$ 79,831	\$ 693,134	\$ 237,324	\$ 1,570,088
Deposits	3,775	-	-	-	-	3,775
Due to other funds	-	-	48,675	816,721	82,984	948,380
Advance from other funds	2,519,087	-	-	-	-	2,519,087
Total liabilities	3,082,661	-	128,506	1,509,855	320,308	5,041,350
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	-	-	-	-	47,421	47,421
Capital improvement projects	-	-	1,386,623	-	119,379	1,506,002
Public safety	-	-	-	-	244,014	244,014
Landscape maintenance	-	-	-	-	45,857	45,857
Unassigned	(1,608,325)	-	-	(310,124)	(161,680)	(2,080,129)
Total fund balance	(1,608,325)	-	1,386,623	(310,124)	294,991	(236,835)
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,474,336	\$ 3,000,000	\$ 1,515,129	\$ 1,199,731	\$ 615,299	\$ 7,804,495

CITY OF KING CITY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2017

Total governmental fund balances \$ (236,835)

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 13,947,479

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 (4,956,383)

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 857,675

Governmental long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the funds (1,159,459)

Compensated absences are not due and payable in the current period
and, therefore, are not reported in the Governmental Funds (517,240)

Net position of governmental activities \$ 10,935,237

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	General	HOME Grant	Development Impact Fees	Gax Tax	Other Governmental Funds	Total Governmental Funds
Revenue						
Taxes	\$ 4,930,662	\$ -	\$ -	\$ 260,743	\$ 326,524	\$ 5,517,929
Intergovernmental	38,367	-	74,775	1,199,731	287,007	1,599,880
Charges for services	13,469	-	27,714	-	96,541	137,724
Licenses, permits and impact fees	624,393	-	304,926	-	-	929,319
Fines and forfeitures	64,253	-	-	-	943	65,196
Interest and rent	45,797	-	3,272	-	1,457	50,526
Other	425,185	-	-	-	-	425,185
Total revenue	6,142,126	-	410,687	1,460,474	712,472	8,725,759
Expenditures						
Current						
General government	1,057,566	-	-	-	-	1,057,566
Public safety	3,244,489	-	-	-	30,849	3,275,338
Public works	482,878	-	14,538	298,637	378,658	1,174,711
Culture and recreation	307,338	-	-	-	-	307,338
Community development	1,290,662	-	33,704	-	-	1,324,366
Capital outlay	794,234	-	192,885	1,706,642	34,364	2,728,125
Debt Service						
Principal	39,758	-	-	18,517	42,225	100,500
Interest and fiscal charges	29,954	-	-	17,838	4,362	52,154
Total expenditures	7,246,879	-	241,127	2,041,634	490,458	10,020,098
Revenue over/(under) expenditures	(1,104,753)	-	169,560	(581,160)	222,014	(1,294,339)
Other Financing Sources/(Uses)						
Sale of property	2,253,291	-	-	-	-	2,253,291
Loan proceeds	794,234	-	-	395,255	-	1,189,489
Transfers in/(out) - net	618,298	-	-	-	(268,298)	350,000
Total other financing sources/(uses)	3,665,823	-	-	395,255	(268,298)	3,792,780
Change in Fund Balance	2,561,070	-	169,560	(185,905)	(46,284)	2,498,441
Fund Balance						
Beginning of year	(4,169,395)	-	1,217,063	(124,219)	341,275	(2,735,276)
End of year	(1,608,325)	-	1,386,623	(310,124)	294,991	(236,835)

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, 2017

Net change in fund balance - total governmental funds \$ 2,498,441

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

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 (1,189,489)

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 100,500

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 2,728,125

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 (11,697)

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 (96,570)

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 (936,229)

Change in net position of governmental activities \$ 3,093,081

CITY OF KING CITY

STATEMENT OF NET POSITION – PROPRIETARY FUND

JUNE 30, 2017

	Business-Type Activities - Enterprise Fund
	Sewer
ASSETS	
Current assets	
Cash and investments	\$ 4,757,761
Restricted cash and investments	340,400
Accounts receivable	178,298
Interest receivable	1,138
Total current assets	<u>5,277,597</u>
Non-current assets	
Deferred charges	81,806
Advance to other funds	2,519,087
Property, plant and equipment (net of allowance for depreciation)	<u>10,270,908</u>
Total noncurrent assets	<u>12,871,801</u>
Total assets	<u>18,149,398</u>
DEFERRED OUTFLOW OF RESOURCES	<u>23,710</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expense	76,243
Accrued interest	77,037
Current portion of long-term debt	<u>140,867</u>
Total current liabilities	<u>294,147</u>
Noncurrent Liabilities	
Long-term debt	5,720,094
Net pension liability	<u>94,948</u>
Total liabilities	<u>6,109,189</u>
DEFERRED INFLOW OF RESOURCES	<u>6,659</u>
NET POSITION	
Net investment in capital assets	4,409,947
Restricted for debt service	340,400
Unrestricted	<u>7,306,913</u>
Total net position	<u>\$ 12,057,260</u>

See accompanying notes.

CITY OF KING CITY

**STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2017**

	Business-Type Activities - Enterprise Fund
	<u>Sewer</u>
Operating Revenue	
Charges for services	\$ 2,454,094
Rents and concessions	52,550
Total operating revenue	<u>2,506,644</u>
Operating Expense	
Contractual services and utilities	514,753
Personnel	86,519
Supplies and materials	255,237
Depreciation	180,506
Total operating expense	<u>1,037,015</u>
Operating income/(loss)	<u>1,469,629</u>
Nonoperating Revenue/(Expense)	
Interest income	24,940
Interest expense	(304,670)
Amortization expense	(3,565)
Total nonoperating revenue/(expense)	<u>(283,295)</u>
Net income/(loss) before transfers	1,186,334
Operating Transfers In/(Out)	<u>(350,000)</u>
Change in Net Position	<u>836,334</u>
Net Position	
Beginning of year	<u>11,220,926</u>
End of year	<u>\$ 12,057,260</u>

CITY OF KING CITY

STATEMENT OF CASH FLOW - PROPRIETARY FUND YEAR ENDED JUNE 30, 2017

	Business-Type Activities - Enterprise Fund
	Sewer
Operating Activities	
Receipts from customers and users	\$ 2,540,198
Payments for contractual services and utilities	(1,003,141)
Payments to employees	(276,456)
Payments to suppliers	(255,237)
Net cash provided by (used in) operating activities	<u>1,005,364</u>
Non-capital Financial Activities	
Cash received from (paid to) other funds	<u>6,906,441</u>
Net cash provided by (used in) noncapital financing activities	<u>6,906,441</u>
Capital and Related Financing Activities	
Purchase of property, plant, and equipment	(4,053,270)
Principal paid on long-term debt	1,410,961
Interest paid on long-term debt	(306,603)
Net cash provided by (used in) capital and related financing activities	<u>(2,948,912)</u>
Investing Activities	
Interest received	<u>26,985</u>
Net cash provided by (used in) investing activities	<u>26,985</u>
Net Increase in Cash	4,989,878
Cash	
Beginning of year	<u>108,283</u>
End of year	<u>\$ 5,098,161</u>
Reconciliation of Cash to Financial Statements	
Cash and investments	\$ 4,757,761
Restricted cash and investments	<u>340,400</u>
Total cash and investments	<u>\$ 5,098,161</u>

CITY OF KING CITY

STATEMENT OF CASH FLOW - PROPRIETARY FUND (CONTINUED) YEAR ENDED JUNE 30, 2017

Cash Flows from Operating Activities

Operating income (loss)	\$	1,469,629
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		180,506
(Increase) Decrease in Deferred Outflow of Resources		(15,011)
(Increase) Decrease in Accounts Receivable		33,554
Increase (Decrease) in Deferred Inflows of Resources		(41,053)
Increase (Decrease) in Net Pension Liability		(133,873)
Increase (Decrease) in Accounts Payable and Accrued Expense		<u>(488,388)</u>

Net Cash Provided by Operating Activities

\$ 1,005,364

Noncash Investing, Capital, and Financing Activities

Amortization of bond discount	\$	<u>3,565</u>
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CITY OF KING CITY

STATEMENT OF FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2017

Assets

Cash and investments	
Cash and investments	\$ 1,673,011
Cash and investments with fiscal agent	6,230,950
Land held for resale	<u>620,000</u>
Total assets	<u>8,523,961</u>

Liabilities

Accounts payable and accrued liabilities	3,235
Interest payable	118,446
Long-term debt	
Due within one year	560,625
Due in more than one year	<u>12,917,102</u>
Total liabilities	<u>13,599,408</u>

Net Position

Held in trust for other governments	<u>\$ (5,075,447)</u>
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CITY OF KING CITY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY JUNE 30, 2017

Additions

Property taxes	\$ 1,193,521
Investment earnings and other	32,762
Sale of land held for resale	457,184
Total additions	<u>1,683,467</u>

Deductions

Administrative costs	33,888
Program expenses of former redevelopment agency	1,545,812
Bond issuance related costs	144,379
Interest and fiscal agency expenses of former redevelopment agency	504,428
Total deductions	<u>2,228,507</u>

Change In Net Position (545,040)

Net Position

Beginning of year	<u>(4,530,407)</u>
End of year	<u>\$ (5,075,447)</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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. In June 2010, the voters of the City approved a Charter, which gives the City Council greater self-rule. The City is governed by a City Council of five members. The City's major operations include public safety; highways and streets; sewer services; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Basis of Presentation – Fund Accounting

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

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

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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.

Gas Tax Fund – The fund is used to account for mitigation fees received from gasoline taxes and to be used on street projects.

The City reports the following major proprietary fund:

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

The City reports the following additional fund types:

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

Basis of Accounting

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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, 2017, 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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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.

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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 6,741,502
Restricted Cash and Investments	340,400
Fiduciary Funds:	
Cash and Investments	1,673,011
Cash and Investments with fiscal agent	<u>6,230,950</u>
Total Cash and Investments	<u>\$ 14,985,863</u>

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 972
Deposits with Financial Institutions	6,146,010
Local Agency Investment Fund	2,267,531
Held by Fiscal Agent:	
Money Market Mutual Funds	692,159
US Government Issues	<u>5,879,191</u>
Total Cash and Investments	<u>\$ 14,985,863</u>

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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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 measurements as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2017 Balance</u>
Investments by fair value level:				
Debt Securities:				
U.S. Treasury Obligations	\$ -	\$ 5,879,191	\$ -	\$ 5,879,191
Total Debt Securities	-	5,879,191	-	5,879,191
Equity Securities:				
LAIF	-	2,267,531	-	2,267,531
Total Equity Securities	-	2,267,531	-	2,267,531
Investments carried at amortized cost:				
Deposits				6,146,982
Money Market Mutual Funds				692,159
Total Investments amortized at cost				6,839,141
Total Investments				<u>\$ 14,985,863</u>

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 3 – Cash and Investments (Continued)

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

Investments Authorized by Debt Agreements

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

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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, 2017 the City had the following investments:

Investment Type	12 Months or less	13 to 24 Months	25 to 84 Months	Total
LAIF	\$ 2,267,531	\$ -	\$ -	\$ 2,267,531
Money Market Mutual Funds	692,159	-	-	692,159
US Government Issues	304,795	362,057	5,212,339	5,879,191
Total Investments	\$ 3,264,485	\$ 362,057	\$ 5,212,339	8,838,881
Cash in bank and on hand				6,146,982
Total Cash and Investments				\$ 14,985,863

Disclosures Relating to Credit Risk

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

	Rating as of Year-End			Total
	AAA	A	Ba	
Investments				
Money Market Mutual Funds	\$ 692,159	\$ -	\$ -	\$ 692,159
Total Investments	\$ 692,159	\$ -	\$ -	692,159
Not rated:				
LAIF				2,267,531
US Government Issues				5,879,191
Cash in bank and on hand				6,146,982
Total Cash and Investments				\$ 14,985,863

Concentration of Credit Risk

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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, 2017, the City investments in the following investment types were held by the broker-dealer that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market Mutual Funds	\$ 692,159
US Government Issues	5,879,191

Investment in State Investment Pool

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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, 2017 are as follows:

	<u>Advance To</u>	<u>Advance From</u>
Sewer Fund	\$ 2,519,087	\$ -
General Fund	-	2,519,087
	<u>\$ 2,519,087</u>	<u>\$ 2,519,087</u>

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, 2017 are as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 718,023	\$ -
Gas Tax Fund	-	816,721
Development Impact Fees Fund	230,357	48,675
Airport Operations Fund	-	82,984
	<u>\$ 948,380</u>	<u>\$ 948,380</u>

The interfund payable balance due to the General Fund and 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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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.

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 618,298	\$ -
Enterprise Funds:		
Sewer Fund	-	(350,000)
Nonmajor Governmental Funds:		
UUT-Public Safety Fund	-	(268,298)
	<u>\$ 618,298</u>	<u>\$ (618,298)</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 5 – Capital Assets

Capital asset activities for the year ended June 30, 2017 were as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 194,727	\$ -	\$ -	\$ 194,727
Construction in progress	-	1,311,387	-	1,311,387
Total capital assets, not being depreciated	<u>194,727</u>	<u>1,311,387</u>	<u>-</u>	<u>1,506,114</u>
Capital assets, being depreciated				
Buildings and improvements	8,581,044	1,216,146	-	9,797,190
Infrastructure	14,034,131	-	-	14,034,131
Machinery and equipment	2,999,582	200,592	(125,592)	3,074,582
Total capital assets, being depreciated	<u>25,614,757</u>	<u>1,416,738</u>	<u>(125,592)</u>	<u>26,905,903</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,017,372)	(242,279)	-	(6,259,651)
Infrastructure	(4,983,370)	(623,645)	-	(5,607,015)
Machinery and equipment	(2,653,159)	(70,305)	125,592	(2,597,872)
Total accumulated depreciation	<u>(13,653,901)</u>	<u>(936,229)</u>	<u>125,592</u>	<u>(14,464,538)</u>
Total capital assets, being depreciated, net	<u>11,960,856</u>	<u>480,509</u>	<u>-</u>	<u>12,441,365</u>
Governmental activities capital assets, net	<u>\$ 12,155,583</u>	<u>\$ 1,791,896</u>	<u>\$ -</u>	<u>\$ 13,947,479</u>
<u>Business-Type Activities</u>				
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	<u>4,425,485</u>	<u>-</u>	<u>(3,661,392)</u>	<u>764,093</u>
Capital assets, being depreciated				
Building and improvements	6,312,912	7,714,662	-	14,027,574
Plant and equipment	1,206,238	-	-	1,206,238
Total capital assets, being depreciated	<u>7,519,150</u>	<u>7,714,662</u>	<u>-</u>	<u>15,233,812</u>
Less: accumulated depreciation	<u>(5,546,491)</u>	<u>(180,506)</u>	<u>-</u>	<u>(5,726,997)</u>
Total capital assets, being depreciated, net	<u>1,972,659</u>	<u>7,534,156</u>	<u>-</u>	<u>9,506,815</u>
Business-type activities capital assets, net	<u>\$ 6,398,144</u>	<u>\$ 7,534,156</u>	<u>\$ (3,661,392)</u>	<u>\$ 10,270,908</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 5 – Capital Assets (Continued)

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

Governmental Functions:

General Government	\$	53,689
Public Safety		156,503
Public Works		507,838
Culture and Recreation		218,199
	<u>\$</u>	<u>936,229</u>

Business-Type Functions:

Sewer	<u>\$</u>	<u>180,506</u>
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Note 6 – Notes Receivables

Notes receivable and deferred loans consisted of the following at June 30, 2017:

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, 2017 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:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Current</u> <u>Portion</u>
<u>Governmental Activities Long Term Debt</u>					
2016 Police Vehicles Capital Lease	\$ 70,470	\$ -	\$ (22,146)	\$ 48,324	\$ 23,464
2017 Police Vehicles Capital Lease	-	77,782	(20,079)	57,703	18,741
Telephone Capital Lease	-	52,744	(8,665)	44,079	9,514
Solar Energy Capital Lease	-	1,058,963	(49,610)	1,009,353	23,960
Total Governmental Activities Long-term Debt	<u>\$ 70,470</u>	<u>\$ 1,189,489</u>	<u>\$ (100,500)</u>	<u>\$ 1,159,459</u>	<u>\$ 75,679</u>
<u>Business-Type Activities Long Term Debt</u>					
2009 Refunding Certificates of Participation	\$ 4,450,000	\$ -	\$ (100,000)	\$ 4,350,000	\$ 105,000
Solar Energy Capital Lease	-	1,585,224	(74,263)	1,510,961	35,867
Total Business-Type Activities Debt	<u>\$ 4,450,000</u>	<u>\$ 1,585,224</u>	<u>\$ (174,263)</u>	<u>\$ 5,860,961</u>	<u>\$ 140,867</u>
<u>Compensated Absences</u>					
Governmental Activities	<u>\$ 420,670</u>	<u>\$ 96,570</u>	<u>\$ -</u>	<u>\$ 517,240</u>	

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 7 – Long-Term Debt (Continued)

Long-term debt payable at June 30, 2017 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 2016-17 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.

2017 Police Vehicles Capital Lease – On September 16, 2016, the City entered into a lease agreement for two police vehicles. The lease bears an interest rate of 2.583% and terminates on October 16, 2019.

Telephone Capital Lease – On June 14, 2016, the City entered into 60-month phone equipment lease for a monthly payment of \$1,107 at 9.460% interest rate. Annual payments are \$13,278 and terminates on July 1, 2021.

Solar Energy Capital Lease – On July 10, 2016, the City started making payments on a solar lease arrangement. The amount financed was \$2,644,187. Annual payments are from \$94,649 to \$156,907 and terminates on January 10, 2030. Interest rate is 3.231%.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 7 – Long-Term Debt (Continued)

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2017 was:

Years ending June 30,	Government-Wide Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 75,679	\$ 42,174	\$ 140,867	\$ 259,872
2019	102,295	36,777	181,480	273,844
2020	84,097	32,178	194,155	266,702
2021	70,931	28,776	207,285	258,864
2022	64,058	26,190	220,890	250,337
2023-2027	418,849	95,006	1,347,001	1,093,264
2028-2032	343,550	19,980	1,439,283	759,796
2033-2037	-	-	1,220,000	432,600
2038-2040	-	-	910,000	78,400
	<u>\$ 1,159,459</u>	<u>\$ 281,081</u>	<u>\$ 5,860,961</u>	<u>\$ 3,673,679</u>

Conduit Debt Obligations - To provide financing for health facilities of Southern Monterey County Memorial Hospital (the “Corporation”), the City has issued \$5,265,000 aggregate principal amount of Health Facilities Revenue Certificates of Participation, 1998 Series A, and \$7,735,000 aggregate principal amount of Health Facilities Revenue Certificates of Participation, 1999 Series B (the “COPS”). These COPS are payable solely from purchase payments received by the City from the Corporation pursuant to an installment purchase agreement. The COPS do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported in the accompanying financial statements. At June 30, 2017 the outstanding balance on both COPS Series was \$6,767,594. As of June 30, 2017 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, 2017:

Governmental Funds	
General	\$(1,608,325)
Gas Tax	(310,124)
Airport Operations	(70,051)
Measure X	(91,629)
	<u>\$(2,080,129)</u>

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

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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 2016-17 pension contributions subsequent to measurement date	\$ 76,674
Difference between expected and actual experience	7,096
Adjustment due to differences in proportions	22,946
Difference between projected and actual contributions	29,304
Net differences between projected and actual earnings on pension plan investments	<u>761,240</u>
Total deferred outflows of resources	<u>\$ 1,297,260</u>

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:

Changes in assumptions	\$ 149,774
Adjustment due to differences in proportions	206,992
Difference between projected and actual contributions	51,390
Difference between expected and actual experience	<u>14,378</u>
Total deferred inflows of resources	<u>\$ 422,534</u>

The City also has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, that item, 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 6.25-14.785% 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.

CITY OF KING CITY

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

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

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
	Prior to January 1, 2013	Prior to January 1, 2013
Hire Date	2.0% at 55;	2.0% at 50;
Benefit Formula	maximum 2%	maximum 2%
	COLA	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	8.377%	14.785%
	 PEPRA	
	<u>Miscellaneous</u>	<u>PEPRA Safety</u>
	On or after January 1, 2013	On or after January 1, 2013
Hire Date	2.0% at 62;	2.7% at 57;
Benefit Formula	maximum 2%	maximum 2%
	COLA	COLA
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	62	57
Monthly Benefits, as a % of Eligible Compensation	2.00%	2.00%
Required Employee Contribution Rates	6.25%	11.50%
Required Employer Contribution Rates	6.555%	12.082%

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.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

For the year ended June 30, 2017, the contributions recognized as part of the pension expense is as follows:

Contributions – employer	\$ 476,674
Contributions – employee	\$ 167,551

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

As of June 30, 2017, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$2,967,126
Safety	\$2,084,205

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, 2015, 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, 2015 rolled forward to June 30, 2016 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, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2015	0.008862%	0.04014%
Proportion - June 30, 2016	<u>0.008541%</u>	<u>0.04024%</u>
Change	-0.000321%	0.00010%

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

For the year ended June 30, 2017, the City recognized pension expense of \$298,431. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 476,674	\$ -
Differences in expected and actual experience	7,096	(14,378)
Adjustment due to differences in proportions	22,946	(206,992)
Changes in assumptions or other inputs	-	(149,774)
Differences in projected and actual contributions	29,304	(51,390)
Net differences between projected and actual earnings on pension plan investments	<u>761,240</u>	<u>-</u>
Total	<u>\$ 1,297,260</u>	<u>\$ (422,534)</u>

The \$476,674 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, 2017. 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 <u>June 30</u>	
2018	\$ (82,181)
2019	(48,406)
2020	331,063
2021	<u>197,576</u>
Total	<u>\$ 398,052</u>

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
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 ¹ Date for all Funds
Post Retirement Benefit Increase	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 April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

All other actuarial assumptions used in the June 30, 2015 valuation was 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.

Change of assumptions – There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represents the unamortized portion of the changes of assumptions related to prior measurement periods.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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, the amortization and smoothing periods recently adopted by the Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover 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, 2016.

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	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

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	\$ 4,419,130	\$ 2,967,126	\$ 1,767,116
Safety	\$ 3,221,341	\$ 2,084,205	\$ 1,150,731

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, 2017, the City has no outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Note 11 – Risk Management

The City provides for workers' compensation and liability through a self-funded joint powers agency, Monterey Bay Area Self Insurance Authorities. Joint Powers Agreement (JPA) accounts are not separately maintained for each participant.

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the Monterey Bay Area Self Insurance Authority (MBASIA). MBASIA is composed of 10 California public entities and is organized under a joint powers agreement pursuant to California Government Code 6500 et seq. The purpose of MBASIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverage.

General Liability: The City has a deductible of \$10,000 for each liability claim. Claims above \$10,000 up to \$1,000,000 are paid by MBASIA. Claims above \$1,000,000 up to \$29,000,000 are covered by insurance purchased by MBASIA.

Workers’ Compensation: The City does not retain deductible for workers’ compensation claims. Annual premiums for coverage up to statutory levels are paid to MBASIA based on a Board approved Budget methodology. A third party claims administrator is contracted by MBASIA to manage claims activity.

CITY OF KING CITY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

Note 11 – Risk Management (Continued)

Adequacy of Protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded insured coverage. There have been no significant reductions in insured liability coverage from coverage in the prior year. Audited financial statements for MBASIA can be obtained from their management at 100 Pine Street, 11th Floor, San Francisco, CA 94111.

Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through December 19, 2017, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2017 that required recognition or disclosure in such financial statements.

Note 13 - Contingencies

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

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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KING CITY

BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 4,714,000	\$ 4,754,000	\$ 4,930,662	\$ 176,662
Intergovernmental	92,500	92,500	38,367	(54,133)
Charges for services	12,600	12,600	13,469	869
Licenses and permits	548,100	648,100	624,393	(23,707)
Fines and forfeitures	91,500	91,500	64,253	(27,247)
Interest and rents	32,500	32,500	45,797	13,297
Other	50,000	350,000	425,185	75,185
Total revenue	<u>5,541,200</u>	<u>5,981,200</u>	<u>6,142,126</u>	<u>160,926</u>
Expenditures				
Current				
General government	765,293	849,793	1,057,566	(207,773)
Public safety	3,288,697	3,288,697	3,244,489	44,208
Public works	491,603	496,603	482,878	13,725
Culture and recreation	335,889	350,889	307,338	43,551
Community development	1,030,718	1,355,718	1,290,662	65,056
Capital outlay	315,000	315,000	794,234	(479,234)
Debt service				
Principal	-	-	39,758	(39,758)
Interest and fiscal charges	-	-	29,954	(29,954)
Total expenditures	<u>6,227,200</u>	<u>6,656,700</u>	<u>7,246,879</u>	<u>(590,179)</u>
Revenue over (under) expenditures	(686,000)	(675,500)	(1,104,753)	(429,253)
Other Financing Sources				
Sale of property	1,575,000	2,249,000	2,253,291	4,291
Loan proceeds	-	-	794,234	794,234
Transfers in (out), net	(889,000)	(889,000)	618,298	1,507,298
Total other financing sources/(uses)	<u>686,000</u>	<u>1,360,000</u>	<u>3,665,823</u>	<u>2,305,823</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 684,500</u>	2,561,070	<u>\$ 1,078,045</u>
Fund Balance				
Beginning of year			(4,169,395)	
End of year			<u>\$ (1,608,325)</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Intergovernmental	\$ -	\$ -	\$ 74,775	\$ 74,775
Charges for services	15,000	15,000	27,714	12,714
Licenses, permits and impact fees	127,500	127,500	304,926	177,426
Interest and rent	-	-	3,272	3,272
Total revenue	<u>142,500</u>	<u>142,500</u>	<u>410,687</u>	<u>268,187</u>
Expenditures				
Current				
Public works	-	-	14,538	(14,538)
Community development	22,870	22,870	33,704	(10,834)
Capital outlay	55,000	130,000	192,885	(62,885)
Total expenditures	<u>77,870</u>	<u>152,870</u>	<u>241,127</u>	<u>(73,719)</u>
Revenue over/(under) expenditures	<u>\$ 64,630</u>	<u>\$ (10,370)</u>	169,560	<u>\$ 194,468</u>
Fund Balance				
Beginning of year			<u>1,217,063</u>	
End of year			<u>\$ 1,386,623</u>	

CITY OF KING CITY

**BUDGETARY COMPARISON SCHEDULE
GAS TAX FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>		
Revenue				
Taxes	\$ 328,000	\$ 328,000	\$ 58,514	\$ (269,486)
Intergovernmental	-	-	83,427	83,427
Total revenue	<u>328,000</u>	<u>328,000</u>	<u>141,941</u>	<u>(186,059)</u>
Expenditures				
Current				
Public works	<u>328,000</u>	<u>328,000</u>	<u>233,570</u>	<u>94,430</u>
Total expenditures	<u>328,000</u>	<u>328,000</u>	<u>233,570</u>	<u>94,430</u>
Revenue over (under) expenditures	-	-	(91,629)	(91,629)
Other Financing Sources				
Transfers in (out), net	-	-	-	-
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	(91,629)	<u>\$ (91,629)</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ (91,629)</u>	

CITY OF KING CITY

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 YEARS*
YEAR ENDED JUNE 30, 2017**

	Miscellaneous			Safety		
	2015	2016	2017	2015	2016	2017
Proportion of the net pension liability	0.09668%	0.08862%	0.08541%	0.04336%	0.04014%	0.04024%
Proportionate share of the net pension liability	\$ 2,389,457	\$ 2,431,259	\$2,967,126	\$ 1,626,559	\$ 1,653,870	\$ 2,084,205
Covered - employee payroll	\$ 834,582	\$ 936,886	\$ 978,018	\$ 1,087,897	\$ 939,684	\$ 829,185
Proportionate share of the net pension liability as a percentage of covered-employee payroll	286.31%	259.50%	303.38%	149.51%	176.00%	251.36%
Plan's fiduciary net position	\$ 7,090,204	\$ 8,223,238	\$7,817,932	\$ 6,567,188	\$ 6,832,315	\$ 6,292,887
Plan's fiduciary net position as a percentage of the Total Pension Liability	77.58%	77.18%	72.49%	80.15%	80.51%	75.12%

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

CITY OF KING CITY
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS*
YEAR ENDED JUNE 30, 2017

	Miscellaneous			Safety		
	2015	2016	2017	2015	2016	2017
Contractually required contribution (actuarially determined)	\$ 145,093	\$ 187,302	\$ 257,596	\$ 279,368	\$ 213,094	\$ 182,185
Contributions in relation to the actuarially determined contributions	(145,093)	(187,302)	(257,596)	(279,368)	(213,094)	(182,185)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 834,582	\$ 936,886	\$ 978,018	\$ 1,087,897	\$ 939,684	\$ 829,185
Contributions as a percentage of covered-employee payroll	17.39%	19.99%	26.34%	25.68%	22.68%	21.97%

* Fiscal year 2014-15 was the first year of implementation, therefore only three 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, 2017

	Special Revenue Funds				
	SLESF/COPS Grant	Asset Seizure	Riverview Gardens Landscape	Airport Operations	
ASSETS					
Cash and investments	\$ 178,794	\$ 11,085	\$ 45,844	\$ 375	
Accounts receivable	-	-	-	14,215	
Interest receivable	133	8	31	16	
Due from other governments	17,809	-	-	1,700	
Total assets	\$ 196,736	\$ 11,093	\$ 45,875	\$ 16,306	
LIABILITIES					
Accounts payable and accrued expense	\$ 363	\$ -	\$ 18	\$ 3,373	
Due to other funds	-	-	-	82,984	
Total liabilities	363	-	18	86,357	
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	-	-	-	
Total deferred inflows of resources	-	-	-	-	
FUND BALANCE					
Restricted					
Circulation improvements	-	-	-	-	
Capital improvement projects	-	-	-	-	
Public safety	196,373	11,093	-	-	
Landscape maintenance	-	-	45,857	-	
Unassigned	-	-	-	-	
Total fund balance	\$ 196,373	\$ 11,093	\$ 45,857	\$ (70,051)	
Total liabilities, deferred inflows of resources, and fund balance	\$ 196,736	\$ 11,093	\$ 45,875	\$ 16,306	

CITY OF KING CITY

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2017**

	Special Revenue Funds					Total
	Traffic Safety	CDBG Grant	Measure X	UUT-Public Safety	Non-major Governmental Funds	
ASSETS						
Cash and investments	\$ 47,314	\$ 119,297	\$ -	\$ 8,339	\$	411,048
Accounts receivable	-	-	-	-	-	14,215
Interest receivable	32	82	-	113	-	415
Due from other governments	75	-	141,941	28,096	-	189,621
Total assets	\$ 47,421	\$ 119,379	\$ 141,941	\$ 36,548	\$	615,299
LIABILITIES						
Accounts payable and accrued expense	\$ -	\$ -	\$ 233,570	\$ -	\$	237,324
Due to other funds	-	-	-	-	-	82,984
Total liabilities	-	-	233,570	-	-	320,308
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	-	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-	-
FUND BALANCE						
Restricted						
Circulation improvements	47,421	-	-	-	-	47,421
Capital improvement projects	-	119,379	-	-	-	119,379
Public safety	-	-	-	36,548	-	244,014
Landscape maintenance	-	-	-	-	-	45,857
Unassigned	-	-	(91,629)	-	-	(161,680)
Total fund balance	47,421	119,379	(91,629)	36,548	-	294,991
Total liabilities, deferred inflows of resources, and fund balance	\$ 47,421	\$ 119,379	\$ 141,941	\$ 36,548	\$	615,299

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	Special Revenue Funds			
	SLESF/COPS Grant	Asset Seizure	Riverview Gardens Landscape	Airport Operations
Revenue				
Taxes	-	\$ -	-	\$ -
Intergovernmental	158,609	-	-	44,971
Charges for services	-	-	-	96,541
Fines and forfeitures	-	-	-	-
Interest and rent	470	32	133	51
Total revenue	<u>159,079</u>	<u>32</u>	<u>133</u>	<u>141,563</u>
Expenditures				
Public safety	30,849	-	-	-
Public works	-	-	131	144,957
Capital outlay	34,364	-	-	-
Debt service				
Principal	42,225	-	-	-
Interest	4,362	-	-	-
Total expenditures	<u>111,800</u>	<u>-</u>	<u>131</u>	<u>144,957</u>
Revenue over (under) expenditures	47,279	32	2	(3,394)
Other financing sources/(uses)				
Transfers in/(out), net	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Change in Fund Balance	47,279	32	2	(3,394)
Fund Balance				
Beginning of year	149,094	11,061	45,855	(66,657)
End of year	<u>\$ 196,373</u>	<u>\$ 11,093</u>	<u>\$ 45,857</u>	<u>\$ (70,051)</u>

CITY OF KING CITY

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	Special Revenue Funds					Total
	Traffic Safety	CDBG Grant	Measure X	UUT-Public Safety	Non-major Governmental Funds	
Revenue						
Taxes	\$ -	\$ -	\$ 58,514	\$ 268,010	\$ -	\$ 326,524
Intergovernmental	-	-	83,427	-	-	287,007
Charges for services	-	-	-	-	-	96,541
Fines and forfeitures	943	-	-	-	-	943
Interest and rent	136	346	-	289	-	1,457
Total revenue	<u>1,079</u>	<u>346</u>	<u>141,941</u>	<u>268,299</u>		<u>712,472</u>
Expenditures						
Public safety	-	-	-	-	-	30,849
Public works	-	-	233,570	-	-	378,658
Capital outlay	-	-	-	-	-	34,364
Debt service	-	-	-	-	-	42,225
Principal	-	-	-	-	-	4,362
Interest	-	-	233,570	-	-	490,458
Total expenditures			<u>233,570</u>			<u>490,458</u>
Revenue over (under) expenditures	1,079	346	(91,629)	268,299		222,014
Other financing sources/(uses)						
Transfers in/(out), net	-	-	-	(268,298)		(268,298)
Total other financing sources (uses)				<u>(268,298)</u>		<u>(268,298)</u>
Change in Fund Balance	1,079	346	(91,629)	1		(46,284)
Fund Balance						
Beginning of year	46,342	119,033	-	36,547		341,275
End of year	<u>\$ 47,421</u>	<u>\$ 119,379</u>	<u>\$ (91,629)</u>	<u>\$ 36,548</u>		<u>\$ 294,991</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of King City, California, (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 19, 2017.

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.

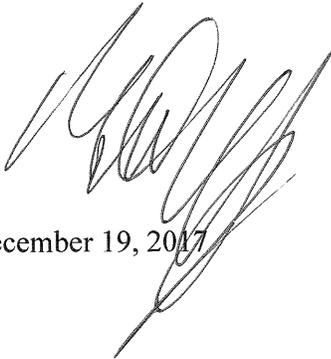
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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.

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and flourishes.

December 19, 2017

CITY OF KING CITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2017

Summary Schedule of Prior Audit Findings

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